



Norfolk Pension Fund

Funding Strategy Statement

March 2023

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1 Welcome to Norfolk Pension Fund's funding strategy statement

This document sets out the funding strategy statement (FSS) for Norfolk Pension Fund.

The Norfolk Pension Fund is administered by Norfolk County Council, known as the administering authority. Norfolk County Council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 31 March 2023.

There's a regulatory requirement for Norfolk County Council to prepare an FSS. You can find out more about the regulatory framework in [Appendix A](#). If you have any queries about the FSS, contact alexander.younger@norfolk.gov.uk

1.1 What is the Norfolk Pension Fund?

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

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

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

1.3 Who is the FSS for?

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

Different types of employers participate in the fund:

Scheduled bodies

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

Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the fund can't refuse entry.

Admission bodies

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

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

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

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets, and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy detailed in the Investment Strategy Statement available from www.norfolkpensionfund.org.

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

1.5 Does the funding strategy reflect the investment strategy?

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

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

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

2 How does the fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of three elements:

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

The third element is an allowance for the fund's expenses, and this is included in the primary rate.

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

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

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

This approach allows for the maturing profile of the membership when setting employer contribution rates.

2.2 Prepayment of contributions

The fund permits the prepayment of employer contributions in specific circumstances. The fund's policy on prepayments is detailed in [Appendix E](#).

Employee contributions

The fund will not consider requests to allow payment of employee contributions early.

Employer contributions

The fund will consider requests from employers to make payment of their employer contributions early.

Each case will be considered on its own merits, taking into account the type of the employer, the employer rate, the amount, and the value of cash the fund holds.

Prepayment of contributions does not guarantee that the employer will benefit from earlier investment: the value of the prepaid contributions can fall if investment returns are negative. The risks associated with prepayment should be considered by the employer before any action is taken.

2.3 The contribution rate calculation

Table 1: contribution rate calculation for individual or pooled employers

The category of other designating bodies includes Town & Parish Councils and Internal Drainage Boards.

Type of employer	Scheduled bodies		Colleges	CABs		TABs*
	Part 1 employers	Part 2 employers				
Sub-type	Local authorities, Academies and Police	Other designating bodies	Includes other FE establishments	Open to new entrants	Closed to new entrants	all
Funding target*	Ongoing	Ongoing	Ongoing	Ongoing, but may move to low risk exit basis	Ongoing, but may move to low risk exit basis	Contractor exit basis, assuming fixed-term contract in the fund
Minimum likelihood of success	75%	75%	75%	75%	75%	75%
Maximum time horizon	20 years	20 years	15 years**	15 years	Average future working lifetime (or less if no guarantee)	Outstanding contract term, subject to 15 years maximum
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					
Secondary rate	Monetary amount	Monetary amount	Monetary amount**	Monetary amount or % pay	Monetary amount	Monetary amount
Stabilised contribution rate?	Yes	Yes	No**	No	No	No
Treatment of surplus	Covered by stabilisation arrangement		Reduction permitted to primary rate**	Preferred approach: contributions kept at primary rate. Reductions may be permitted at the discretion of the administering authority		Reduce contributions to spread surplus over remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement		3 year**s	3 years	None	None

* Employers participating in the fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority

** The fund may review the approach for colleges, depending on the introduction of a guarantee by the Education and Skills Funding Agency. If a guarantee is introduced, contributions for colleges will be set using a maximum time horizon of 20 years and will be subject to a stabilisation arrangement

A number of ceased employers continue to contribute to the fund through a post-cessation funding arrangement. These employers, and any others in future if appropriate, will continue to be treated on an individual basis at the discretion of the fund.

2.4 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. If this isn't appropriate, contribution increases or decreases may be phased. The fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy for some employers.

Table 2: current stabilisation arrangement

Type of employer	Precepting Category 1 – includes levying bodies and Academies	Precepting Category 2	Precepting Category 3
Maximum contribution increase per year	+0.5% of pay	+1.0% of pay	+2.0% of pay
Maximum contribution decrease per year	-0.5% of pay	-0.5% of pay	-1.0% of pay

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

2.5 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations for a 'significant change' to the liabilities or covenant of an employer, in line with its policy on contribution reviews. The fund's policy is in [Appendix J](#).

2.6 What is pooling?

The administering authority operates funding pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. Employers in a pool maintain their individual funding positions, tracked by the fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate.

In this type of pooling arrangement, individual employers do not target full funding at exit. While the fund receives the contributions required from the pool as a whole, there is an increased risk that employers will be entitled to a surplus payment on exit. Paying out this surplus to an exiting employer does leave the remaining pooled employers in a worse position.

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

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

2.7 What are the current contribution pools?

- **Councils** – some of the main councils operate a pool, incorporating smaller related employers and certain ceased contractor arrangements.
- **Norfolk County Council Schools** – the fund generally pools all maintained schools.
- **Police pool** – includes the Norfolk Chief Constable and the Norfolk Police & Crime Commissioner
- **Internal Drainage Boards** - sharing experience and smoothing the effects of costly but rare events like ill-health retirement or deaths in service.
- **Town & Parish Councils** - sharing experience and smoothing the effects of costly but rare events like ill-health retirement or deaths in service.

2.8 Administering authority discretion

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

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

Employers entering into a bespoke agreement with the administering authority will be required to meet the additional cost of this, which includes (but is not limited to) the actuarial fees incurred by the administering authority.

3 What additional contributions may be payable?

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

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

If an employee retires before their normal retirement age on unreduced benefits, employers will be asked to pay additional contributions called strain payments. Employers typically make strain payments as a single lump sum, though strain payments may be spread if the administering authority agrees. Payments may be spread for up to three years.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, an additional funding strain will arise.

Strains are currently met by a fund-operated ill-health risk management solution which shares the strain cost across all employers in the fund.

The administering authority's approach to help manage ill-health early retirement costs was put in place from 1 April 2019. It was reviewed as part of the 2022 Valuation and is next due for review as part of the 2025 Valuation.

4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

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

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

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

Alternatively, if employees move when a new academy is formed, an outsourced contract begins or part of any other contractual transfer, the fund actuary will calculate assets linked to the value of the liabilities transferring (see section 5).

4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in [Appendix D](#), the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

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

4.3 What is a funding level?

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

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 or further information on rates.

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund?

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

The fund will determine the assets and liabilities for a new employer. The calculation will depend on the type of employer and the circumstances of joining.

The fund will also set a contribution rate. This will be set in the way described in section 2 unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement).

The fund's policy on new admission bodies, which includes details of pass-through arrangements, is detailed in [Appendix F](#).

5.2 New academies

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

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

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

The schools pool's estimated funding level will be based on market conditions on the day before conversion. The fund treats new academies as separate employers in their own right, each responsible for their allocated assets and liabilities. Their liabilities or share of assets won't be pooled with other academies or free schools in the fund.

If they are part of a MAT, the new academy can be combined with the other MAT academies for the purpose of setting contributions. Otherwise, the fund's default approach is for a new academy to pay contributions over the period to 31 March 2026 at the same rate as the ceding council. Alternatively, a new academy can choose to have their rate assessed using the funding strategy for existing academies (set out in section 2) and their own transferring membership. The fund's approach for new free schools is to pay the same rate as the Norfolk Schools pool.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT. Additional information about bulk transfers of staff relating to academies consolidating into a single LGPS fund is also included in [Appendix I](#).

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

The fund's policy on academies and free schools is detailed in [Appendix I](#).

5.3 New admission bodies as a result of outsourcing services

New admission bodies usually join the fund because an existing employer (typically a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor. Liabilities for transferring active members will be calculated by the fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances. An outsourcing employer has some flexibility when it comes to pension risk potentially taken on by the contractor (e.g. to allow the contractor to offer LGPS membership to new employees working on the contract). You can find more details on outsourcing options from the administering authority or in the contract admission agreement.

Where an academy is the letting employer, the fund's policy is to require all new admission bodies to be set up with a pass-through arrangement which is closed to new members. This is to ensure that the 'DfE Academy Trust LGPS Guarantee policy' applies to the outsourcing. For all other letting employers, the fund's policy is to require all new admission bodies to be set up with a pass-through arrangement, which may be open or closed to new members. The fund's policy on pass-through agreements is included in [Appendix F](#).

Additional information on outsourcing from an academy or free school is included in [Appendix I](#).

5.4 Other new employers

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

New designating employers may also join the fund. These are usually town and parish councils, which participate in a separate pool. Contribution rates will be set using the same approach as other designating employers in the fund.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction. The letting authority must agree to the actuary's assessment and must also agree to keep the assessment under review throughout the contract.

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

This must cover some or all of the:

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

Where an academy is the letting employer, the fund will expect academies to ensure and confirm that the outsourcing complies with the requirements set out in the 'DfE Academy Trust LGPS Guarantee policy' (which can be viewed on the GOV.UK website at [DfE local government pension scheme guarantee for academy trusts: pensions policy for outsourcing arrangements - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/policies/local-government-pension-scheme-guarantee-for-academy-trusts-pensions-policy-for-outsourcing-arrangements) before permitting an admission body in the fund. Where this requirement is met, no additional risk assessment or security will typically be required for the admitted body as the pension liabilities will be covered by the DfE Academy Guarantee.

Where the admission body does not meet the requirements of the DfE Academy Trust LGPS Guarantee policy, the fund will review each case individually to decide if the admission body must provide security before being admitted to the fund. In these cases, the fund will typically require the academy to evidence that they have sought and received permission from the Education and Skills Funding Agency to act as a guarantor.

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

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

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

The fund's bulk transfer policy is detailed in [Appendix G](#). Additional information about bulk transfers of staff relating to academies consolidating into a single LGPS fund is also included in [Appendix I](#)

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

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

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

7.2 What happens on cessation?

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

- (a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low risk exit basis is defined in [Appendix D](#).
- (b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation, i.e. low-risk basis. If this isn't the case, the cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.
- (c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus.

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

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

The fund's policy on employer exits is detailed in [Appendix K](#).

7.3 What happens if there is a surplus?

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

- the surplus amount

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

The exit credit policy is included within the fund's policy on employer exits detailed in [Appendix K](#).

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period if the employer enters into a deficit spreading arrangement (DSA)
- if an exiting employer enters into a deferred debt agreement, the employer stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The employer flexibility on exit policy is in [Appendix K](#).

7.5 What if an employer has no active members?

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

- a) their asset share runs out before all ex-employees' benefits have been paid. The other fund employers take on collective responsibility and will be required to contribute to the remaining benefits.
- b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The fund actuary will apportion the remaining assets to the other fund employers.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

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

8.2 Solvency

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

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

or

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

8.3 Long-term cost efficiency

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

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

Relative factors include:

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

Absolute factors include:

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

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

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

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

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

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

A2 Consultation

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

The consultation process included:

1. A draft version of the FSS circulated in November 2022 for comments by all participating employers
2. Comments requested by 31 January 2022 allowing 2 months for comments to be submitted
3. Discussion at the Employers Forum on 29 November 2022 where all employers, whether attending in person or online, had the opportunity to raise questions about the FSS

Closure of the consultation on 31 January 2023 with approval by Committee by 30 March 2023, publication on 30 March 2023, in advance of publication of the 2022 formal valuation report by 31 March 2023

A3 How is the FSS published?

The FSS is published on our website www.norfolkpensionfund.org. Copies are freely available on request and sent to investment managers and independent advisers as required.

A4 How often is the FSS reviewed?

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

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

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

You can access all Fund documentation at www.norfolkpensionfund.org

Appendix B – Roles and responsibilities

B1 The administering authority:

- 1 operates the fund and follows all Local Government Pension Scheme (LGPS) regulations
- 2 manages any conflicts of interest from its dual role as administering authority and a fund employer
- 3 collects employer and employee contributions, investment income and other amounts due
- 4 ensures cash is available to meet benefit payments when due
- 5 pays all benefits and entitlements
- 6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy
- 7 communicates with employers so they understand their obligations
- 8 safeguards the fund against employer default
- 9 works with the fund actuary to manage the valuation process
- 10 provides information to the Government Actuary's Department so they can carry out their statutory obligations
- 11 consults on, prepares, and maintains the funding and investment strategy statements
- 12 tells the actuary about changes which could affect funding
- 13 monitors the fund's performance and funding, amending the strategy statements as necessary
- 14 enables the pensions oversight board to review the valuation process.

B2 Individual employers:

- 1 deduct the correct contributions from employees' pay
- 2 pay all contributions by the due date
- 3 have appropriate policies in place to work within the regulatory framework
- 4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain
- 5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.
- 6 make any required exit payments when leaving the fund.

B3 The fund actuary:

- 1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency
- 2 provides information to the Government Actuary Department so they can carry out their statutory obligations
- 3 advises on fund employers, including giving advice about and monitoring bonds or other security
- 4 prepares advice and calculations around bulk transfers and individual benefits

- 5 assists the administering authority to consider changes to employer contributions between formal valuations
- 6 advises on terminating employers' participation in the fund
- 7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

- 1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement
- 2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS
- 3 auditors comply with standards, ensure fund compliance with requirements, monitor, and advise on fraud detection, and sign-off annual reports and financial statements
- 4 governance advisers may be asked to advise the administering authority on processes and working methods
- 5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures
- 6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

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

The role of the pensions oversight board is set out in the board terms of reference.

Details of the key fund-specific risks and controls are below

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward estimate of liabilities between valuations at whole fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy.</p> <p>Asset liability modelling used to assess appropriate interaction between funding strategy and investment strategy.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees. Fund's salary stain recharge mechanism identifies significant funding issues.</p>

Risk

Summary of Control Mechanisms

Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies

An explicit stabilisation arrangement has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.

Pass-through arrangement in place for new admission bodies from 1 October 2018.

Orphaned employers give rise to added costs for the fund

The fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.

If it occurs, the actuary calculates the added cost spread pro-rata among all employers.

Effect of possible asset underperformance as a result of climate change

Additional modelling of climate change scenarios provided by fund actuary/investment adviser to confirm resilience of investment strategy to the modelled changes

C3 Demographic risks

Risk

Summary of Control Mechanisms

Pensioners living longer, thus increasing cost to fund.

Set mortality assumptions with some allowance for future increases in life expectancy.

The fund actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.

Fund receives annual longevity reporting from Club Vita which identifies any significant longevity related events and their potential impact on funding.

Maturing fund – i.e., proportion of actively contributing employees declines relative to retired employees.

Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.

Deteriorating patterns of early retirements

Employers are charged the extra cost of non ill-health retirements following each individual decision.

Employer ill-health retirement experience is managed via an internal risk sharing mechanism, avoiding risk of material detrimental impact to an individual employer's funding position.

Reductions in payroll causing insufficient employer contributions.

In many cases this may not be sufficient cause for concern and will in effect be caught at the next formal valuation.

Risk

Summary of Control Mechanisms

However, there are protections where there is concern, as follows:

Employers in the stabilisation arrangement may be brought out of that mechanism to permit appropriate contribution increases.

For other employers, review of contributions is permitted in general between valuations and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

Secondary contribution rates are typically set in monetary terms (instead of being linked to payroll).

C4 Regulatory risks

Risk

Summary of Control Mechanisms

Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.

The administering authority considers all consultation papers issued by the Government and comments where appropriate.

The administering authority is monitoring the progress on the McCloud and other ongoing court cases and will consider an interim valuation or other appropriate action once more information is known.

The government's long-term solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits – is built into the actuarial valuation.

Time, cost and/or reputational risks associated with any DLUHC intervention triggered by the Section 13 analysis.

Take advice from fund actuary on position of fund and consideration of proposed valuation approach relative to anticipated Section 13 analysis.

Changes by Government to particular employer participation in LGPS funds, leading to impacts on funding and/or investment strategies.

The administering authority considers all consultation papers issued by the Government and comments where appropriate.

Take advice from fund actuary on impact of changes on the fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
<p>Administering authority unaware of structural changes in an employer’s membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.</p>	<p>The administering authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The actuary may revise the rates and adjustments certificate to increase an employer’s contributions between triennial valuations</p> <p>Secondary contributions generally expressed as monetary amounts.</p>
<p>Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way</p>	<p>The administering authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
<p>Administering authority failing to commission the fund actuary to carry out a termination valuation for a departing Admission Body.</p>	<p>The administering authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies’ memberships are monitored and, if active membership decreases, steps will be taken.</p>
<p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p>The administering authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible .</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals.</p>

Risk	Summary of Control Mechanisms
	Reviewing contributions well ahead of cessation if thought appropriate.
An employer ceasing to exist resulting in an exit credit being payable	<p>The administering authority regularly monitors admission bodies coming up to cessation</p> <p>The administering authority invests in liquid assets to ensure that exit credits can be paid when required.</p>

C6 Employer covenant assessment and monitoring

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

Type of employer	Assessment	Monitoring
Local Authorities	Tax-raising, no individual assessment required	n/a
Academies	Government-backed, covered by DfE guarantee in event of MAT failure	Check that DfE guarantee continues, after regular scheduled DfE review
Police, Fire, Fisheries, Town/Parish Councils, levying bodies	Tax-raising or government-backed, no individual assessment required	n/a
Admission bodies with pass-through agreements	Guaranteed by letting authority, no individual assessment required	n/a
Housing associations*	Individual employer assessment	Regular employer discussions and engagement
Other bodies	Individual employer assessment, based on financial significance to the fund.	Regular employer discussions and engagement

**All housing associations in the fund participate as (community) admission bodies rather than scheduled bodies.*

The fund will consider the covenant of individual employers where particular events occur including, but not limited to, local government re-organisation, significant changes to regulations affecting the education sector, individual employer events like restructuring or large redundancy exercises etc.

C7 Climate risk

The fund has considered climate-related risks when setting the funding strategy. To consider the resilience of the strategy the fund has carried out in-depth asset liability modelling to stress test both the funding and the investment strategies against possible future climate scenarios.

The fund included climate scenario stress testing in the contribution modelling exercise for the precepting employers at the 2022 valuation. The modelling looked at three scenarios, differentiated by the speed and strength of the response to climate change. In all three scenarios the fund assumes that there will be a period of disruption, linked either to the response to climate risk or to the effects of climate risk itself. The fund made no assumptions about specific climate effects e.g. a particular global temperature rise. Instead, the fund accepted that there will be some disruptive period of high volatility in financial markets and considered the impact on the funding strategy under difficult financial conditions.

The modelling results under the stress tests were slightly worse than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The current strategies were proven to be resilient to climate transition risks within an appropriate level of prudence. The Fund will continue to monitor the resilience of the funding strategy to climate risks at future valuations or when there has been a significant change in the risk posed to the Fund (e.g. global climate policy changes).

Appendix D – Actuarial assumptions

The fund’s actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

D1 What are assumptions?

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

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

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

D2 What assumptions are used to set the contribution rate?

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

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

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

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

		Annualised total returns										
		Cash	Index Linked Gilts (long)	UK Equity	Developed World ex UK Equity	Private Equity	Property	Emerging Markets Equity	Unlisted Infrastructure Equity	Multi Asset Credit (sub inv grade)	Direct Lending (private debt) GBP Hedged	Inflation (CPI)
10 Years	16th %ile	0.8%	-3.1%	-0.4%	-0.7%	-1.2%	-0.6%	-2.5%	0.7%	1.7%	2.7%	1.6%
	50th %ile	1.8%	-0.7%	5.7%	5.6%	9.4%	4.4%	5.8%	5.9%	3.5%	6.0%	3.3%
	84th %ile	2.9%	2.0%	11.6%	11.7%	20.1%	9.5%	14.4%	11.2%	5.2%	9.2%	4.9%
20 Years	16th %ile	1.0%	-2.6%	1.7%	1.5%	2.4%	1.4%	0.1%	2.6%	2.8%	4.3%	1.2%
	50th %ile	2.4%	-0.9%	6.2%	6.1%	10.0%	5.0%	6.3%	6.5%	4.4%	6.8%	2.7%
	84th %ile	4.0%	0.8%	10.6%	10.8%	17.6%	8.9%	12.8%	10.6%	6.0%	9.2%	4.3%
40 Years	16th %ile	1.2%	-1.1%	3.2%	3.1%	4.7%	2.6%	2.1%	3.9%	3.6%	5.5%	0.9%
	50th %ile	2.9%	0.3%	6.7%	6.5%	10.3%	5.5%	6.8%	7.0%	5.3%	7.7%	2.2%
	84th %ile	4.9%	1.9%	10.2%	10.2%	16.1%	8.8%	11.7%	10.3%	7.1%	10.0%	3.7%
Volatility (5 yr)		2%	9%	18%	19%	30%	15%	26%	15%	6%	10%	3%

D3 What financial assumptions were used?

Future investment returns and discount rate

The fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

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

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except transferee admission bodies and closed community admission bodies	1.6%
Low risk exit basis	Community admission bodies closed to new entrants	0%
Contractor exit basis	Transferee admission bodies	Equal to the margin used to allocate assets to the employer on joining the fund

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

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 4.3% applies. This is based on a prudent estimate of investment returns, specifically, that there is a 75% likelihood that the fund's assets will future investment returns of 4.3% over the 20 years following the 2022 valuation date.

Pension increases and CARE revaluation

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

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

Salary growth

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

D4 What demographic assumptions were used?

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

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

Life expectancy

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

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

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

Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	45% of maximum tax-free cash
50:50 option	1.0% of members will choose the 50:50 option.

D3 Rates for demographic assumptions

Males

Age	Salary scale	Incidence per 1000 active members per year						
		Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
			FT &PT	FT	PT	FT	PT	FT
20	105	0.17	404.31	975.61	0.00	0.00	0.00	0.00
25	117	0.17	267.06	644.43	0.00	0.00	0.00	0.00
30	131	0.20	189.49	457.17	0.00	0.00	0.00	0.00
35	144	0.24	148.05	357.15	0.10	0.07	0.02	0.01
40	150	0.41	119.20	287.46	0.16	0.12	0.03	0.02
45	157	0.68	111.96	269.95	0.35	0.27	0.07	0.05
50	162	1.09	92.29	222.27	0.90	0.68	0.23	0.17
55	162	1.70	72.68	175.12	3.54	2.65	0.51	0.38
60	162	3.06	64.78	156.02	6.23	4.67	0.44	0.33

Females

Age	Salary scale	Incidence per 1000 active members per year							
		Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2		
			FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.10	317.18	537.48	0.00	0.00	0.00	0.00	
25	117	0.10	213.42	361.61	0.10	0.07	0.02	0.01	
30	131	0.14	178.90	303.07	0.13	0.10	0.03	0.02	
35	144	0.24	154.41	261.49	0.26	0.19	0.05	0.04	
40	150	0.38	128.51	217.55	0.39	0.29	0.08	0.06	
45	157	0.62	119.93	202.99	0.52	0.39	0.10	0.08	
50	162	0.90	101.11	170.95	0.97	0.73	0.24	0.18	
55	162	1.19	75.44	127.69	3.59	2.69	0.52	0.39	
60	162	1.52	60.80	102.78	5.71	4.28	0.54	0.40	

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

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

1. The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin. This was 1.7% pa on 31 March 2022.
2. The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
3. Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

Contractor exit basis

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

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

Appendix E – Prepayment of contributions

Effective date of policy	1 April 2023
Date approved	21 March 2023
Next review	1 April 2025
Summary of changes from previous policy	n/a

Introduction

The purpose of this policy is to set out the administering authority's approach to the prepayment of regular contributions by participating employers. The administering authority retains discretion to take into account any relevant individual employer circumstances.

E1 Aims and objectives

The administering authority's aims and objectives related to this policy are:

- To provide employers with clarity around when prepayment of contributions will be permitted.
- To outline the key principles followed when calculating prepayment amounts.
- To outline the approach used to assess the suitability of a prepayment as sufficient to meet the required contributions.

E2 Background

It is common practice in the LGPS for employers to elect to pre-pay regular contributions that were otherwise due to be paid to the fund in future. Employer contributions include the 'Primary Rate' – which is expressed as a percentage of payroll and reflects the employer's share of the cost of future service benefits, and the 'Secondary Rate' – which can be expressed as a percentage of payroll or a monetary amount and is an additional contribution designed to ensure that the total contributions payable by the Employer meet the funding objective.

On 22 March 2022, following a request from the LGPS Scheme Advisory Board, James Goudie QC provided an [Opinion](#) on the legal status of prepayments. This Opinion found that the prepayment of employee and employer contributions was not illegal, subject to the basis for determining the prepayment amount being reasonable, proportionate, and prudent. The Opinion also set out specific requirements around the presentation of prepayments.

E3 Guidance and regulatory framework

The LGPS regulations set out how funds should determine employer contributions, and include relevant provisions including:

- Regulation 9 – outlines the contribution rates payable by active members
- Regulation 62 - sets the requirement for an administering authority to prepare a rates and adjustments (R&A) certificate.
- Regulation 67 – sets out the requirement for employers to pay contributions in line with R&A certificate and specifies that primary contributions be expressed as a percentage of pensionable pay of active members.

E4 Statement of Principles

Each case will be treated on its own merits, but in general:

- The prepayment of employee contributions is not permitted.

- The prepayment of employer contributions may be permitted.
- Only secure, long-term employers (e.g. local authorities and similar) may be permitted to prepay contributions.
- The fund actuary will determine the prepayment amount, which may require assumptions to be made about payroll over the period which the scheduled contribution is due.
- The prepayment amount may include a discount to reflect the investment return that is assumed to be generated by the fund over the period of prepayment.
- Prepayment agreements can cover any annual period of the R&A (or up to three consecutive annual periods).
- Where contributions expressed as a percentage of pay have been prepaid, the administering authority will carry out an annual check (and additional contributions may be required by the employer) to make sure that the actual amounts paid are sufficient to meet the contribution requirements set out in the R&A certificate.
- The R&A certificate will be updated as necessary to reflect any prepayment agreements in place.
- Employers are responsible for ensuring that any prepayment agreement is treated appropriately when accounting for pensions costs and they are aware of the risks associated with making a prepayment instead of regular contributions.

E5 Policy

Eligibility and periods covered

The fund welcomes requests from employers to pre-pay certified employer contributions.

Local Authorities and large public bodies may prepay primary and secondary contributions.

Employer contributions over the period of the existing R&A certificate (and, where a draft R&A certificate is being prepared following the triennial valuation, the draft R&A certificate) may be pre-paid by employers.

Prepayment of contributions due after the end of the existing (or draft) R&A certificate is not permitted, i.e. it would not be possible to prepay employer contributions due in the 2026/27 year until the results of the 2025 valuation are known and a draft R&A certificate covering the 2026 to 2029 period has been prepared.

Request and timing

Prior to making any prepayment, employers are required to inform the fund in writing of their wish to prepay employer contributions and to request details of the amount required by the fund to meet the scheduled future contributions that they wish to prepay.

This request should be received by the fund at least two months before the start of the period to be prepaid.

The fund will tell the employer the prepayment amount and the date by which this should be paid.

If the employer fails to pay the prepayment amount by the specified date, the fund will require ongoing regular contributions in line with those in the R&A certificate to be made as if no prepayment had ever been agreed. Any other outstanding contributions should be made immediately.

Calculation

The fund actuary will usually determine the prepayment amount required based on the discount rate set for the purpose of the relevant actuarial valuation (as specified in the actuarial valuation report). In some circumstances, a different discount rate may be used. This will be communicated clearly to the employer.

Where the prepayment is in respect of contributions expressed as a percentage of pay the fund actuary will use an estimate of payroll over the period (using the information available and appropriate assumptions about future payroll increases) and a sufficiency check will be required as noted below.

Where the prepayment is in respect of contributions expressed as a monetary amount no sufficiency check will be required.

Employers may pay more than the prepayment amount determined by the fund actuary.

No allowance for expected outsourcing of services and/or expected academy conversions will be made in the fund actuary's estimation of payroll for the prepayment period.

E6 Sufficiency check

Where a prepayment is in respect of a percentage of pay contribution rate, the fund actuary will carry out an **annual** assessment to check that sufficient contributions have been prepaid based on the actual payroll of active members over the period.

If the sufficiency check reveals a shortfall, the employer will be required to make a top-up payment. The administering authority will notify the employer of any top-up amount and the date by which any top-up payment should be made.

The sufficiency check may reveal that the prepayment amount was higher than would have been required on actual payroll, i.e. the actual payroll over the period is less than was assumed. In this case the excess can be offset against the sufficiency check in the following year, but there will not be a refund of contributions to the employer.

The sufficiency check only considers payroll; specifically, it will not compare the assumed investment return (i.e. the discount rate) with actual returns generated over the period. Any shortfall arising due to actual investment returns being lower than that assumed will form part of the regular contribution assessment at the next valuation (as per the normal course of events).

E7 Documentation and auditor approval

The fund will provide the employer with a note of the information used to determine the prepayment amount, including:

- Discount rate used in the calculations
- The estimate of payroll (where applicable)
- The effective date of the calculation (and the date by which payment should be made)
- The scheduled regular payments which the prepayment amount covers.

The prepayment agreement will be reflected in the R&A certificate as follows:

- The unadjusted employer regular contribution rate payable over the period of the certificate

- As a note to the contribution rate table, information relating to the prepayment amount and the discount applied, for each employer where a prepayment agreement exists.

The R&A certificate will be updated as necessary to reflect any prepayment agreements in place.

Employers should discuss the prepayment agreement with their auditor prior to making payment and agree the accounting treatment of this. The fund will not accept any responsibility for the accounting implications of any prepayment agreement.

E8 Costs

Employers entering into a prepayment agreement will be required to meet the additional cost of this, which includes (but is not limited to) the actuarial fees incurred by the administering authority.

E9 Risks

Employers will have their own reasons for wanting to enter a prepayment agreement. One common reason is the expectation that the fund can generate higher returns over the prepayment period than the employer can, i.e. the discount rate used in the prepayment calculation is higher than the return that can be achieved elsewhere. Future returns in the fund are not guaranteed, and the returns generated on prepayment amounts may be lower than expected. It is also possible that negative returns will lead to the value of any prepayment being less than that which was scheduled to be paid. In this case a top-up payment would not be requested (since the sufficiency check only considers the effect of actual payroll being different to that assumed in the prepayment calculation). However, the employer's asset share would be lower than if contributions had been paid monthly. This would be reflected by the fund actuary at the next triennial valuation (as per the normal course of events).

There are other risks to the employer of making a prepayment (such as concentration/timing, prevention of cash being used for other purposes, etc), which are not covered here: the employer is advised to consider these and take advice if necessary.

Appendix F – New employers

Effective date of policy	1 April 2023
Date approved	21 March 2023
Next review	1 April 2025
Summary of changes from previous policy	n/a

Introduction

The purpose of this policy is to set out the administering authority's approach to admitting new contractors into the fund on a pass-through basis. In addition, and subject to review on a case-by-case basis, the fund may be willing to apply its pass-through principles to other admission bodies where liabilities are covered by a guarantor within the fund.

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

F1 Aims and objectives

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

- To set out the fund's approach to admitting new contractors / admission bodies, including the calculation of contribution rates and how risks are shared under the pass-through arrangement.
- To outline the process for admitting new contractors / admission bodies into the fund.

F2 Background

Employees outsourced from local authorities, police, and fire authorities or from non-maintained schools (generally academies, regulated by the Department for Education (DfE)) must be offered pension benefits that are the same, better than, or count as being broadly comparable to, the Local Government Pension Scheme (as per the Best Value Authorities Staff Transfer (Pensions) Direction 2007). This is typically achieved by employees remaining in the LGPS and the new employer becoming an admitted body to the Fund and making the requisite employer contributions.

Pass-through is an arrangement whereby the letting authority (the local authority or the independent school) retains the main risks of fluctuations in the employer contribution rate during the life of the contract, and the risk that the employer's assets may be insufficient to meet the employees' pension benefits at the end of the contract.

F3 Guidance and regulatory framework

The [Local Government Pension Scheme Regulations 2013](#) (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Schedule 2 Part 3 sets out the entities eligible to join the fund as an admitted body, their key responsibilities as an admitted body and the requirements of the admission agreement.
- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and provides a definition of the primary rate.
- Regulation 64 - covers the requirements for a cessation valuation following the exit of a participating employer from the fund.

F4 Statement of principles

This statement of principles covers the admission of new contractors to the fund on a pass-through basis. Pass-through is the default approach for the admission of all new contractors to the fund from the effective date of this policy. For the avoidance of doubt, this would apply to contracts established by councils, police & fire authorities, and academy trusts (“the letting authority”).

Fixed contribution rate

The contractor’s pension contribution rate is fixed for the duration of the contract, up to a maximum of seven years. For contracts longer than seven years, the contractor’s contribution rate will typically be reset by reference to the letting authority’s contribution rate at the review date.

Funding position of the admission body

The letting authority retains responsibility for variations in funding level, for instance due to investment performance, changes in market conditions, longevity, and salary experience under its pass-through arrangement, irrespective of the size of the outsourcing.

The administering authority will review the funding position of the contractor at each triennial valuation and after every seven-year period if the contract extends that far. The administering authority may require the letting authority to make additional contributions to the fund in respect of the pass-through arrangement. This will be requested if the administering authority believes there to be a material deterioration in the admission body’s funding position that is not likely to be recovered by the next valuation date and that deterioration is material to the overall funding position of the letting authority (guarantor).

Additional admission body costs

The contractor will meet the cost of additional liabilities arising from (non-ill health) early retirements and augmentations.

Ill health experience will be pooled with the letting authority and no additional strain payments will be levied on the contractor in respect of ill health retirements.

Security

The contractor will not typically be required to obtain an indemnity bond, as long as both the administering authority and the letting authority agree that it is not required. In this case the letting authority understands that it retains all the risk when the contractor exits the fund, including any unpaid contributions or strain costs. The administering authority fund may still require a bond to cover redundancy costs, at the fund’s discretion.

Where an academy is the letting employer, the fund will expect academies to ensure and confirm that the outsourcing complies with the requirements set out in the ‘DfE Academy Trust LGPS Guarantee policy’ (which can be viewed on the GOV.UK website at [DfE local government pension scheme guarantee for academy trusts: pensions policy for outsourcing arrangements - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/policies/academy-trusts-pensions-policy-for-outsourcing-arrangements) before permitting an admission body in the fund. Where this requirement is met, no additional risk assessment or security will typically be required for the admitted body as the pension liabilities will be covered by the DfE Academy Guarantee.

Admission body asset share

All assets and liabilities relating to the contractor’s staff will remain the ultimate responsibility of the letting authority during the period of participation. However, there will be a notional transfer of assets to the contractor within the fund, to allow the funding position of the admission body to be tracked and for the notional required contribution rate to be calculated for comparison.

At the end of the contract (or when there are no longer any active members participating in the fund, for whatever reason), the admission agreement will cease and no further payment will be required from the contractor (or the letting authority) to the fund, save for any outstanding regular contributions and/or invoices relating to the cost of early retirement strains and/or augmentations and/or salary experience. Likewise, no “exit credit” payment will be payable from the fund to the contractor (or letting authority). The letting authority will retain responsibility for the contractor’s deferred and pensioner members

Documentation

The terms of the pass-through agreement will be documented by way of the admission agreement between the administering authority, the letting authority, and the contractor.

All existing admission agreements are unaffected by this policy, excepting that the DfE Academy Trust LGPS Guarantee policy is retrospective and so may cover admission bodies not otherwise covered prior to May 2023.

The principles outlined above are the default principles which will apply; however, the letting authority may request the specific details of a particular agreement to differ from the principles outlined above. The administering authority is not obliged to agree to a departure from the principles set out in this policy but will consider such requests and engage with the letting authority. The administering authority has the final say in any such discussions.

F5 Policy and process

Compliance

Adherence to this policy is the responsibility of the relevant responsible service manager for any given outsourcing. The administering authority and the fund actuary must always be notified that an outsourcing has taken place, regardless of the number of members involved. Where an academy is guaranteeing a pass-through arrangement, the academy must ensure and confirm that the outsourcing complies with the requirements set out in the ‘DfE Academy Trust LGPS Guarantee policy’ (which can be viewed on the GOV.UK website at [DfE local government pension scheme guarantee for academy trusts: pensions policy for outsourcing arrangements - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/policies/local-government-pension-scheme-guarantee-for-academy-trusts-pensions-policy-for-outsourcing-arrangements)

Contribution rates

The contribution rate payable by the contractor over the period of participation will be set equal to the primary rate payable by the letting authority assessed on a likelihood of success of 80% assessed at the most recent triennial valuation.

Risk sharing and cessation valuation

The letting authority will retain the risk of the contractor becoming insolvent during the period of admission and so no indemnity bond will typically be required by the fund from contractors participating on a pass-through basis. The letting authority is effectively guaranteeing the contractor’s participation in the fund.

A cessation valuation is required when a contractor no longer has any active members in the fund. This could be due to a contract coming to its natural end, insolvency of a contractor or the last active member leaving employment or opting out of the LGPS.

Where a pass-through arrangement is in place, the fund assets and liabilities associated with outsourced employees are retained by the letting authority. At the end of the admission, the cessation valuation will therefore record nil assets and liabilities for the ceasing employer and therefore no cessation debt or exit credit is payable to or from the Fund.

The contractor will be required to pay any outstanding regular contributions and/or unpaid invoices relating to the cost of (non-ill health) early retirement strains and/or augmentations at the end of the contract.

However, in some circumstances, the contractor will be liable for additional pension costs that arise due to items over which it exerts control. The risk allocation is as follows:

Risks	Letting authority	Contractor/ Admitted body
Surplus/deficit prior to the transfer date	✓	
Interest on surplus/deficit	✓	
Investment performance of assets held by the Fund	✓	
Changes to the discount rate that affect past service liabilities	✓	
Changes to the discount rate that affect future service accrual *	✓	✓
Change in longevity assumptions that affect past service liabilities	✓	
Changes to longevity that affect future accrual *	✓	✓
Price inflation affects past service liabilities	✓	
Price inflation / pension increases that affect future accrual *	✓	✓
Exchange of pension for tax free cash	✓	
Ill health retirement experience	✓	
Strain costs attributable to granting early retirements (not due to ill health (e.g. redundancy, efficiency, waiving actuarial reductions on voluntary early retirements)		✓
Greater/lesser level of withdrawals	✓	
Rise in average age of contractor's employee membership	✓	
Changes to LGPS benefit package*	✓	✓
Excess liabilities attributable to the contractor granting pay rises that exceed those assumed in the last formal actuarial valuation of the Fund		✓
Award of additional pension or augmentation		✓

**To the extent captured in the review of fixed rates for longer duration (7+ years) contracts.*

Any risk allocation should be agreed between the contractor and letting authority before the contract commences and should be appropriately detailed in the service agreement and legal documentation.

F6 Accounting valuations

Accounting for pensions costs is a responsibility for individual employers.

It is the administering authority's understanding that contractors may be able to account for such pass-through admissions on a defined contribution basis and therefore no formal FRS102 / IAS19 report may be required. Contractors are effectively paying a fixed rate and are largely indemnified from the risks inherent in providing defined benefit pensions. Contractors should clarify this with their auditors.

As the letting authority retains most of the pension fund risk relating to contractors, it is the administering authority's understanding that these liabilities (and assets) should be included in the letting authority's FRS102 / IAS19 disclosures.

The above is the default approach unless the administering authority is otherwise notified. Contractors should clarify the treatment of pension costs with their auditors.

F7 Application

Letting authorities may request terms which differ from those set out in this policy and any such request will be considered by the Administering authority.

All existing admission agreements (i.e. which commenced prior to the effective date of this policy) are unaffected by this policy.

F8 Process

The procurement department at each letting authority that has responsibility for staff/service outsourcing must be advised of this policy. The process detailed below must be adhered to by the letting authority and (where applicable) the winning bidder.

- **Tender Notification** - The letting authority should publicise this pass-through policy as part of its tender process to bidders.
- **Initial notification to Pension Team** – The letting authority should contact the administering authority when a tender (or re-tender) of an outsourcing contract is taking place and staff (or former staff) are impacted. The administering authority must be advised prior to the start of the tender and the letting authority must also confirm that the terms of this policy have been adhered to.
- **Confirmation of winning bidder** – The letting authority should immediately advise the administering authority of the winning bidder.
- **Request for winning bidder to become an admitted body** – The winning bidder (in combination with the letting authority), should request to the administering authority that it wishes to become an admitted body within the Fund.
- **Template admission agreement** – a standard pass-through admission agreement will be used for admissions under this policy. It will set out all agreed points relating to the employer contribution rate, employer funding responsibilities, and exit conditions. Only in exceptional circumstances, and only with the prior agreement of the Administering authority, will the wording within the standard agreement be changed. All admission agreements must be reviewed (including any changes) by the administering authority.

- **Signed admission agreement** – A fully executed admission agreement must be in place before the fund will accept contributions. If the admission is not in place prior to the start of the contract a back dated payment of contributions may be accepted at the discretion of the Administering Authority.

F9 Cost

The letting authority will be liable to meet any costs incurred by the administering authority for work relating to pass-through arrangements which includes (but is not limited to) any actuarial and legal fees.

F10 Related Policies

The fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

The treatment of new employers joining the fund is set out in the in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the fund?"

The treatment of employers exiting the fund is set out in the in the Funding Strategy Statement, specifically "Section 7 – What happens when an employer leaves the fund?"

Appendix G – Bulk transfers

Effective date of policy	1 April 2023
Date approved	21 March 2023
Next review	1 April 2025
Summary of changes from previous policy	n/a

G1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with the bulk transfer of scheme member pension rights into and out of the fund in prescribed circumstances.

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

G2 Aims and Objectives

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

- Bulk transfers out of the fund do not allow a deficit to remain behind unless a scheme employer is committed to funding this; and
- Bulk transfers received by the fund must be sufficient to pay for the benefits being awarded to the members, again with the scheme employer making good any shortfall where necessary.

Bulk transfer requests will be considered on a case-by-case basis.

G3 Background

Bulk transfers into and out of the fund can occur for a variety of reasons, such as:

- where an outsourcing arrangement is entered into and active fund members join another LGPS fund, or leave the LGPS to join a broadly comparable scheme;
- where an outsourcing arrangement ceases and active scheme members re-join the fund from another LGPS fund or a broadly comparable scheme;
- where there is a reorganisation of central government operations (transfers in from, or out to, other government sponsored schemes);
- where there is a reorganisation or consolidation of local operations (brought about by, for example, local government shared services, college mergers or multi-academy trust consolidations); or
- a national restructuring resulting in the admission of an employer whose employees have LGPS service in another LGPS fund, or vice versa.

Unlike bulk transfers out of the LGPS, there is no specific regulatory provision to allow for bulk transfers into the LGPS. As a result, any transfer value received into the LGPS, whether on the voluntary movement of an individual or the compulsory transfer of employees, must be treated the same way as individual transfers.

G4 Guidance and regulatory framework

Local Government Pension Scheme Regulations

When considering any circumstances involving bulk transfer provisions, the administering authority will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme Regulations 2013 (as amended), including:

- Regulation 98 – applies on transfer out to non-LGPS schemes. It allows for the payment of a bulk transfer value where at least two active members of the LGPS cease scheme membership and join another approved pension arrangement.
- Regulation 99 - gives the LGPS actuary discretion as to the choice of method of calculation used to calculate the bulk transfer value.
- Regulation 100 – allows an individual who holds relevant pension rights under a previous employer to request to be admitted for past service into the LGPS. Members wishing to transfer in accrued rights from a Club scheme (that is schemes with benefits broadly similar to those of the LGPS), who request to do so within 12 months of joining their new LGPS employment, must be granted their request. For members with “non-Club” accrued rights the LGPS fund does not have to grant the request. Any request must be received in writing from the individual within 12 months of active employment commencing or longer at the discretion of the employer and the administering authority.
- Regulation 103 - states that any transfer between one LGPS fund and another LGPS fund (in England and Wales) where ten or more members elect to transfer will trigger bulk transfer negotiations between fund actuaries.

Best Value authorities

The Best Value Authorities Staff Transfers (Pensions) Direction 2007 applies to all “Best Value Authorities” in England. Best Value Authorities include all county, district, and borough councils in England, together with police and fire and rescue authorities, National Park Authorities, and waste disposal authorities. The Direction:

- requires the contractor to secure pension protection for each transferring employee through the provision of pension rights that are the same as or are broadly comparable to or better than those they had as an employee of the authority, and
- provides that the provision of pension protection is enforceable by the employee.

The Direction also requires similar pension protection in relation to those former employees of an authority, who were transferred under TUPE to a contractor, in respect of any re-tendering of a contract for the provision of services (i.e. second and subsequent rounds of outsourcing).

Academies and multi-academy trusts

New Fair Deal guidance, introduced in October 2013, applies to academies and multi-academy trusts. It requires that, where they outsource services, they ensure pension protection for non-teaching staff transferred is achieved via continued access to the LGPS. As a result the fund would not expect to have any bulk transfers out of the LGPS in respect of outsourcings from academies or multi-academy trusts.

Other employers

For all scheme employers that do not fall under the definition of a Best Value Authority or are not an academy (i.e. town and parish councils, arms-length organisations, further and higher education establishments, charities,

and other admission bodies), and who are not subject to the requirements of Best Value Direction or new Fair Deal guidance, there is no explicit requirement to provide pension protection on the outsourcing or insourcing of services. However, any successful contractor is free to seek admission body status in the fund, subject to complying with the administering authority's requirements (e.g. having a bond or guarantor in place).

The old Fair Deal guidance may still apply to a specific staff transfer if permitted by the new Fair Deal guidance or if outside the coverage of the new Fair Deal guidance. (If the individual remains in their original scheme then their past service rights are automatically protected). In the absence of a bulk transfer agreement the administering authority would not expect to pay out more than individual Cash Equivalent Transfer Value (CETV) amounts, in accordance with appropriate Government Actuary's Department (GAD) guidance.

G5 Statement of principles

This statement of principles covers bulk transfer payments into and out of the fund. Each case will be treated on its own merits alongside appropriate actuarial advice, but in general:

- Where a group of active scheme members joins (or leaves) the fund, the administering authority's objective is to ensure that sufficient assets are received (or paid out) to meet the cost of providing those benefits.
- Ordinarily the administering authority's default approach for bulk transfers out (or in) will be to propose (or accept) that the transfer value is calculated using ongoing assumptions based on the employer's share of fund assets (capped at 100% of the value of the liabilities). The fund will retain the discretion to amend the bulk transfer basis to reflect the specific circumstances of each transfer – including (but not restricted to):
 - the use of cessation assumptions where unsecured liabilities are being left behind;
 - where a subset of an employer's membership is transferring (in or out), the fund may consider an approach of calculating the bulk transfer payment as the sum of CETVs for the members concerned; or
 - where transfer terms are subject to commercial factors.
- Where an entire employer is transferring in or out of the fund the bulk transfer should equal the asset share of the employer in the transferring fund regardless of whether this is greater or lesser than the value of past service liabilities for members.
- There may be situations where the fund accepts a transfer in amount which is less than required to fully fund the transferred in benefits on the fund's ongoing basis (e.g. where the employer has suitable strength of covenant and commits to meeting that shortfall over an appropriate period). In such cases the administering authority reserves the right to require the receiving employer to fund this shortfall (either by lump sum or by increasing in ongoing employer contributions) ahead of the next formal valuation.
- Any shortfall between the bulk transfer payable by the fund and that which the receiving scheme is prepared to accept must be dealt with outside of the fund, for example by a top up from the employer to the receiving scheme or through higher ongoing contributions to that scheme.
- Service credits granted to transferring scheme members should fully reflect the value of the benefits being transferred, irrespective of the size of the transfer value paid or received.

G6 Policy

The following summarises the various scenarios for bulk transfers in or out of the fund, together with the administering authority's associated policies.

Inter-fund transfer (transfer between the fund and another LGPS fund)

Scenario	Bulk transfer mechanism	Policy	Methodology
In	< 10 members – GAD guidance	CETVs in accordance with GAD guidance.	On receipt of a transfer value (calculated in line with the CETV transfer out formulae), the fund will award the member a pension credit on a day-for-day basis.
	10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	<p>Where agreement can be reached, the fund and the transferring fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. However, where agreement cannot be reached:</p> <p>Actives only transferring: CETVs in accordance with GAD guidance using transferring fund's actual fund returns for roll up to date of payment (rather than the interest applied for standard CETV's). This will be capped at 100% of the liabilities, calculated on an ongoing basis at the transfer date.</p> <p>All members transferring (i.e. all actives, deferred and pensioners): Receive all assets attributable to the membership within the transferring scheme.</p>	<p>The fund's default policy is to accept a transfer value that is at least equal to the total of the individual CETVs calculated using the Club transfer-out formulae. The fund will consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement.</p> <p>Pension credits will be awarded to the transferring members on a day-for-day basis.</p>
Out	< 10 members – GAD guidance	CETVs in accordance with GAD guidance.	The transfer value paid to the receiving fund will be calculated in line with the CETV transfer-out formulae.
	10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	<p>Where agreement can be reached, the fund and the receiving fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. However, where agreement cannot be reached:</p> <p>Actives only transferring (i.e. remaining members left behind): CETV in accordance with GAD guidance using transferring fund's actual fund returns for roll-up to date of payment (rather than the interest applied for standard CETV's).</p> <p>All actives transferring (i.e. deferred and pensioner members left behind): Assets will be retained by the fund to cover the liabilities of the deferred and pensioner members calculated using the fund's cessation assumptions. The residual assets will then be transferred to the receiving scheme.</p> <p>All members transferring (i.e. all actives, deferred and pensioners):</p>	<p>The fund's default policy is to offer a transfer value that is equal to the total of the individual CETV calculated using the Club transfer-out formulae. The fund will consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement.</p> <p>The fund retains discretion to amend this to reflect specific circumstances of the situation.</p>

Scenario	Bulk transfer mechanism	Policy	Methodology
		Transfer all assets attributable to the membership to the receiving scheme.	

Club Scheme

Scenario	Bulk transfer mechanism	Policy	Methodology
In	Club Memorandum	The Club mechanism ensures the pension credit in the fund provides actuarially equivalent benefits.	The pension credit awarded to members transferring in will be calculated in line with the Club transfer-in formulae.
Out	Regulation 98 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement.	The fund's default policy is to offer the receiving scheme transfers out calculated using ongoing assumptions based on the ceding employer's share of fund assets (capped at 100% of the liability value). Discretion exists to amend this to reflect specific circumstances of the situation.
	or Club Memorandum	Or Where agreement cannot be reached, revert to the Club transfer out formulae in accordance with GAD guidance.	

Admin

Broadly Comparable Scheme or non-Club scheme

Scenario	Bulk transfer mechanism	Policy	Methodology
In	GAD guidance	Non-Club transfer in formulae in accordance with GAD guidance	The pension credit awarded to members transferring in will be calculated in line with the non-Club transfer in formulae.
Out	1 member only – GAD guidance	CETV in accordance with GAD guidance	The transfer value paid to the receiving scheme will be calculated in line with the CETV transfer-out formulae.
	2 or more members – Regulation 98 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance	The fund's default policy is to offer the receiving scheme transfers out calculated in line with the CETV transfer-out formulae. The fund retains discretion to amend this to reflect specific circumstances of the situation.

G7 Practicalities and process**Format of transfer payment**

Ordinarily payment will be in cash.

A deduction from the bulk transfer will be made for any administration, legal and transaction costs incurred by the fund as a result of having to disinvest any assets to meet the form of payment that suits the receiving scheme.

Impact on transferring employer

Any transfer out or in of pension rights may affect the valuation position of the employer and consequently their individual contribution rate.

The fund will agree with the transferring employer how this change is dealt with. Though it is likely this will be through adjustments to its employer contribution rate, the fund may require a lump sum payment or instalments of lump sums to cover any relative deterioration in past service funding position, for example where the deterioration in position is a large proportion of its total notional assets and liabilities. Where the transfer is small relative to the employer's share of the fund, any adjustment may be deferred to the next valuation.

Consent

Where required within the Regulations, for any bulk transfer the administering authority will ensure the necessary consent is obtained from each individual eligible to be part of the transfer.

Approval process

The fund will normally agree to bulk transfers into or out of the fund where this policy is adhered to.

Non-negotiable

It should be noted that, as far as possible, the fund's preferred terms on bulk transfers are non-negotiable. Any differences between the value the fund is prepared to pay (or receive) and that which the other scheme involved is prepared to accept (or pay) should be dealt with by the employers concerned outside the fund.

Costs

Actuarial and other professional costs will be recharged to the employer.

Appendix H – Salary strain policy

Effective date of policy	1 April 2023
Date approved	21 March 2023
Next review	1 April 2025
Summary of changes from previous policy	n/a

H1 Introduction

The purpose of this policy is to set out the administering authority's approach to monitoring the strain on the fund if employers award salary increases that are higher than assumed at the most recent valuation.

H2 Aims and objectives

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

- Employers with final salary linked benefits increasing faster than expected will meet the additional cost on an annual basis
- The fund is protected from employers not able to meet additional pension costs at each triennial valuation arising from higher-than-assumed salary growth.

H3 Background

New benefits earned by active members are revalued in line the Consumer Price Index (CPI) and determined by the regulations. Members with benefits accrued before 1 April 2014 maintain a link to their final salary until they leave the scheme or retire. At each valuation the fund actuary values these final salary linked benefits using an assumption about the rate of salary increases relative to CPI, plus a promotional salary scale.

If salary increases are higher in any year than assumed for the year (using the ongoing inflation assumption, updated for current market conditions) then the value of the liability associated with those benefits will be higher than expected. This is called salary growth strain. **It is related solely to the final salary linked benefits of active members.** In isolation, this worsens the employer's funding position, and the shortfall has to be recovered through higher employer contributions.

This shortfall may be revalued at each actuarial valuation but this creates a risk for the fund that the employer is not able to meet the higher costs from that point. Instead, the employer will be asked to make salary growth strain payments on an annual basis, if necessary, to minimise the likelihood of an unmanageable deficit accumulating.

H5 Statement of Principles

The fund will monitor the actual salary increases awarded by each participating employer.

- the employer will be required to pay any salary growth strain as an immediate lump sum payment.
- if salary growth has been lower than expected then there will be no payment or refund of contributions to the employer.
- if salary growth in a year has been lower than expected then the (negative) salary growth strain may be offset against any future year up to the next actuarial valuation date.
- if the overall impact of salary growth between valuations is a gain (i.e. a lower liability) then this will be reflected in the overall funding position at the next actuarial valuation, contributing towards a reduction in the total contribution rate (all other things being equal).

H6 Policy

The salary growth assessment will be carried out for each financial year, i.e. 1 April to 31 March.

All employers are covered by the salary growth strain mechanism and will be required to make a strain payment if requested.

H7 Practicalities and process

The administering authority will provide membership data to the fund actuary for all members who have been active in the Fund over the year. The actuary will compare each member's salary at the assessment date to the salary at the previous assessment date, allowing for part years where necessary.

The fund actuary considers both the inflationary element of salary growth and the impact of the promotional salary scale. The inflationary growth element will be based on the level of CPI inflation over the financial year plus the margin used at the previous actuarial valuation. The promotional growth element will be that used at the previous actuarial valuation.

The fund actuary will calculate the salary growth strain for each applicable employer and the administering authority will typically recharge the strain amount to each affected employer. The strain amount will be notified to each employer in the fourth quarter of the financial year, and the employer will make the payment within one month. The recharged amount will be offset against any negative salary strain calculated in a previous year, as long as the previous year started after the most recent actuarial valuation.

In the interests of efficiency, the administering authority retains the discretion not to recharge de-minimis amounts.

H8 Costs

The cost of operating the salary growth strain mechanism is met by the administering authority as part of its operating costs.

Appendix I – Academies and Free Schools

Effective date of policy	1 April 2023
Date approved	21 March 2023
Next review	1 April 2025
Summary of changes from previous policy	n/a

I1 Introduction

The purpose of this policy is to set out the administering authority's funding principles relating to academies, including free schools, and Multi-Academy Trusts (MATs).

I2 Aims and Objectives

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

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

I3 Background

As described in section 5.2 new academies join the fund on conversion from a local authority school or on creation of new provision. For funding purposes the standard approach is for academies to become stand-alone

I4 Guidance and regulatory framework

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

There is currently a written ministerial guarantee of academy LGPS liabilities, which was reviewed in 2022. This has been further supplemented by the 'DfE Academy Trust LGPS Guarantee policy' of May 2023 (which can be viewed on the GOV.UK website at [DfE local government pension scheme guarantee for academy trusts: pensions policy for outsourcing arrangements - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/policies/academy-trusts)

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

I5 Statement of Principles

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

- the fund will seek to apply a consistent approach to funding academies that achieves fairness to the ceding local education authority, MATs and individual academies.
- academies must consult with the fund prior to carrying out any outsourcing activity, including pass-through arrangements. The fund expects academies to ensure that any outsourcing complies with the requirements set out in the 'DfE Academy Trust LGPS Guarantee policy' and confirm to the Fund

that the requirements are met. Where the Guarantee policy terms cannot be met, and no suitable alternative is agreed, the fund may refuse admission of the contractor as an admission body

- the fund's current approach is to treat all academies within a MAT as separate employers, each retaining their own pension risks.

I6 Policies

Admission to the fund

As set out in section 5.2.

Asset allocation on conversion

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

Contribution rate

See section 5.2.

I7 Multi-academy trusts

Asset tracking

The fund's current policy is to individually track the asset shares of each academy within the fund.

Academies leaving a MAT (but continuing as an employer)

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

I8 Merging of MATs (contribution rates)

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

Alternatively, as set out in the fund's contribution review policy (section 2.5) and per Regulation 64 A (1)(b) (iii) the MAT may ask for a contribution review to be carried out. The MAT would be liable for the costs of this review.

I9 Cessations of academies and multi-academy trusts

A cessation event will occur if a current academy or MAT ceases to exist, either as an entity or as an employer in the fund.

The cessation approach will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the fund, all assets, and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.

- If the MAT is split to become/join more than one new/existing employer within the fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers as described in section 17.
- In all other circumstances, and following payment of any cessation debt, the ceasing academy or MAT would be treated the same as any other employer, as described in section 7.5.

I10 Academy consolidations

If an academy or MAT is seeking to merge with another MAT outside of the fund they would need to seek approval from the secretary of state to consolidate their liabilities (and assets) into one LGPS fund.

The fund will generally consider receiving additional academies into the fund as part of a consolidation exercise and will not generally object to academies leaving the fund as part of a logical consolidation exercise.

The fund expects the deferred and pensioner members of any consolidating academy to transfer along with the active members. The academy will transfer out with their own share of the fund assets at the date of transfer. If in surplus; the asset share will not be capped at 100% of the liabilities; if in deficit, the academy will not be required to restore the asset share to 100% of the liabilities before the transfer takes place.

The fund will provide the necessary administrative assistance to academies seeking to consolidate into another LGPS fund. However, the academy (or MAT) will be fully liable for all actuarial, professional, and administrative costs.

I11 Outsourcing

An academy (or MAT) may outsource or transfer a part of its services and workforce to another employer. The employer makes an admission agreement with the fund and becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership.

The contractor will pay towards the LGPS benefits accrued by the transferring members for the duration of the contract, but ultimately the obligation to pay for these benefits will revert to the academy (or MAT) at the end of the contract.

The contribution rate payable by the contractor will be set in line with the policy contained in Appendix F.

It is critical for any academy (or MAT) considering any outsourcing to contact the fund initially to fully understand the administrative and funding implications. The academy should also read and fully understand the fund's admissions / pass-through policy.

Academies must ensure that the requirements set out in the 'DfE Academy Trust LGPS Guarantee policy' are met before completing an outsourcing. Where the Guarantee policy terms cannot be met, and no suitable alternative is agreed, the fund may refuse the contractor entry to the fund as an admission body

I12 Accounting

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

Each academy or MAT remains responsible for communicating their own accounting requirements to the fund actuary (or other provider) that is preparing their FRS102 disclosure. . The academy (or MAT) will meet all actuarial, professional, and additional administrative costs, including the cost of providing any information to their auditors.

Appendix J – Contribution reviews

Effective date of policy	1 April 2023
Date approved	21 March 2023
Next review	1 April 2025
Summary of changes from previous policy	n/a

J1 Introduction

The purpose of this policy is to set out the administering authority's approach to reviewing contribution rates between triennial valuations.

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

J2 Aims and objectives

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

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

J3 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the fund or at the exceptional request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

J4 Guidance and regulatory framework

Regulation 64 of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 64 (4) – allows the administering authority to review the contribution rate if it becomes likely that an employer will cease participation in the fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 64A - sets out specific circumstances where the administering authority may revise contributions between valuations (including where a review is requested by one or more employers).

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

J5 Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The administering authority intends to review contributions only in the most exceptional circumstances

- An employer can request a review but must provide evidence of why a review may be justified along with the initial request
- The administering authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the administering authority, subject to consultation with employer(s) during the review period.
- Full justification for any change in contribution rates will be provided to employer(s).
- Advice will be taken from the fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

J6 Policy

Circumstances for review

The fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an administering authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the fund within the next two years and before completion of the next triennial valuation;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers 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 an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security).
- it appears to the administering authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the administering authority.

Employer requests

The administering authority will only consider a request from an employer to review contributions in exceptional circumstances. The employer must set out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The administering authority will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The costs incurred by the administering authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

J7 Other employers

When undertaking any review of contributions, the administering authority will also consider the impact of a change to contribution rates on other fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.
- The size of the employer's liabilities relative to the whole fund.
- The administering authority will consult with other fund employers as necessary.

J8 Effect of market volatility

Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

J9 Documentation

Where revisions to contribution rates are necessary, the fund will provide the employer with a note of the information used to determine these, including:

Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.

A note of the new contribution rates and effective date of these.

Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the administering authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

J10 Related Policies

The fund's approach to setting employer contribution rates is set out within this Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

Appendix K - Employer exits

Effective date of policy	1 April 2023
Date approved	21 March 2023
Next review	1 April 2025
Summary of changes from previous policy	n/a

K1 Introduction

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

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

K2 Aims and Objectives

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

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

K3 Background

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

K4 Guidance and regulatory framework

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

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer
- Regulation 64 (2) – where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the fund.
- Regulation 64 (2ZAB) – the administering authority must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
 - a) Notify its intention to make a determination to-

- (i) The exiting employer and any other body that has provided a guarantee to the Exiting Employer
 - (ii) The scheme employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement
 - b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the administering authority and the exiting employer agree.
- Regulation (2ZC) – In exercising its discretion to determine the amount of any exit credit, the administering authority must have regard to the following factors-
 - a) The extent to which there is an excess of assets in the fund relating to that employer in paragraph (2)(a)
 - b) The proportion of this excess of assets which has arisen because of the value of the employer’s contributions
 - c) Any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
 - d) Any other relevant factors
 - Regulation 64 (2A) & (2B)– the administering authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the fund within the period specified in the suspension notice.
 - Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining fund employers may be amended.
 - Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the administering authority may obtain a certificate from the fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.
 - Regulation 64 (5) – following the payment of an exit payment to the fund, no further payments are due to the fund from the exiting employer.
 - Regulation 64 (7A-7G) – the administering authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.
 - Regulation 64B (1) – the administering authority may set out a policy on spreading exit payments.

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

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

These regulations relate to all employers in the fund.

K5 Statement of Principles

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

- it is the fund’s policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the fund.
- the fund’s preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (section 7). This would extinguish any liability to the fund by the exiting employer.
- the fund’s preferred approach is for subsumption of any remaining liabilities by another employer in the fund i.e. a continuing employer to take over responsibility for any residual liabilities relating to the exiting employer’s former deferred and pensioner members.
- the fund’s key objective is to protect the interests of the fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of the exit debt.

K6 Policies

On cessation, the administering authority will instruct the fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus as defined in section 7.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The fund’s normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

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

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

K7 Approach to cessation calculations

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

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authorities, Police, Fire	Low risk basis ¹	Shared between other fund employers
Colleges & Universities	Low-risk basis	Shared between other fund employers

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Academies	Low-risk basis	DfE guarantee may apply, otherwise see below
Designating employers ²	Low-risk basis	Shared between other fund employers (if no guarantor exists) in the funding pool or across all employers
Admission bodies (CABs)	Low-risk basis	Shared between other fund employers (if no guarantor exists)
Admission bodies (TABs)	Ongoing basis / contractor exit basis ³	Letting authority (where applicable), otherwise shared between other fund employers

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

² The fund will not typically carry out a cessation valuation when a designating employer ceases, with the residual assets and liabilities remaining in any funding pool in which the employer participated. If there is no pool, the remaining fund employers take on responsibility for any future deficit emerging.

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

K8 Cessation of academies and multi-academy trusts (MATs)

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

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If an academy or MAT is split into more than one new or existing employers within the fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers. The actuary will use their professional judgement to determine an appropriate and fair methodology for this calculation in consultation with the administering authority.
- In all other circumstances, and following payment of any cessation debt, section 7.5 of the FSS would apply.

Further details are included in the fund's Academies Policy in [Appendix I](#).

Repayment flexibility on exit payments

K9 Deferred spreading arrangement (DSA)

The fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

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

- The agreed spread period is no more than three years, but the fund could use its discretion to extend this period.
- The fund will require some form of security from the exiting employer, or a guarantee from a suitable employer remaining in the fund.
- The fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the administering authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The fund will only consider written requests within six months of the employer exiting the fund. The exiting employer would be required to provide the fund with detailed financial information to support its request.
- The fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.
- Where appropriate, cases may be referred to the Pensions Committee for consideration and considered on its individual merit. Decisions may be made by the Chair in consultation with officers if an urgent decision is required between Committee meetings. The Section 151 Officer will sign off any final decision if required to be made between Committee meetings.

Deferred debt agreement (DDA)

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

The employer must meet all requirements on Scheme employers and pay the secondary rate of contributions as determined by the fund actuary until the termination of the DDA. The fund may also review the investment strategy for the employer as result of entering into a DDA.

The administering authority may consider a DDA in the following circumstances:

- The employer requests the fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.

- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the administering authority.

The administering authority will normally require:

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

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

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

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

Exit credits

The administering authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the Local Government Pension Scheme (Amendment) Regulations 2020.

The administering authority will determine the amount of exit credit to be payable (noting that this could be nil). However, in making a determination, the administering authority will take into account the following factors.

- a) the extent to which there is an excess of assets in the fund relating to the employer over and above the liabilities specified.
- b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.
- c) any representations to the administering authority made by the exiting employer, guarantor, ceding Scheme Employer (usually the Letting Authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.
- d) any other relevant factors

Admitted bodies

- i. The fund will consider paying an exit credit in respect of admissions who joined the fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph iii) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this may have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the fund.
- ii. No exit credit will not be payable to any admission body who participates in the fund via the mandated pass-through approach. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the fund via the "Letting employer retains pre-contract risks" route is subject to its risk sharing arrangement, as per paragraph iii) below. Note that this decision remains as a discretion by the administering authority, who will decide on a case-by-case basis.
- iii. The fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the administering authority) of the admission body ceasing participation in the fund.
- iv. In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in iii), the fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the administering authority.
- v. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- vi. If the admission agreement ends early, the fund will consider the reason for the early termination, and whether that should have any relevance on the fund's determination of the value of any exit credit payment. In these cases, the fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.
- vii. If an admission body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

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

Scheduled bodies and designating bodies

- i. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- ii. Where no formal guarantor or risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- iii. The decision of the fund is final in interpreting how any arrangement described under i) and ii) applies to the value of an exit credit payment.
- iv. If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.
- v. If a scheduled body or resolution body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

General

- i. The fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.
- ii. Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the fund and the respective investment returns earned on both.
- iii. The fund will also factor in if any contributions due or monies owed to the fund remain unpaid by the employer at the cessation date. If this is the case, the fund's default position will be to deduct these from any exit credit payment.
- iv. The final decision will be made by the Director of Pensions, in conjunction with advice from the fund's actuary and/or legal advisors where necessary, in consideration of the points held within this policy.
- v. The fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the fund will discuss its approach to determining an exit credit with all affected parties. The decision of the fund in these instances is final.
- vi. The guidelines above at point v) in the 'Admitted bodies' section, and at points i) and ii) in the 'Scheduled bodies and designating bodies' section, make reference to the fund 'considering the approach to setting contribution rates during the employer's participation'. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Table 2 (section 2.3). Considering the approach taken when setting contribution rates of the exiting employer may help the fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter or longer than usual funding time horizon or

lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.

Disputes

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

Practicalities and process

Responsibilities of ceasing employers

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

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

Responsibilities of Administering Authority

The administering authority will:

- gather information as required, including, but not limited to, the following:
 - details of the cessation - the reason the employer is leaving the fund (ie end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
 - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
 - the likely outcome for any remaining employee members (eg will they be transferred to a new employer, or will they cease to accrue liabilities in the fund).
- identify the party that will be responsible for the employer's deficit on cessation (ie the employer itself, an insurance company, a receiver, another fund employer, guarantor, etc.).
- commission the fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.

- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

Payment of an exit credit

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

Responsibilities of the actuary

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

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