Funding Strategy Statement Consultation

At its meeting on 23 June the Pension Fund Committee endorsed a revised draft Funding Strategy Statement (FSS) for consultation. The Statement sets out our approach to various matters concerning the funding of your pension liabilities including our policy on the payment of exit credits and the management of exit payments (employer flexibilities).

Response to the Consultation

Please send any responses to investments@kent.gov.uk by Friday 13 August 2021

Changes to the Funding Strategy Statement

The FSS has been revised to take account of changes to the LGPS regulations concerning the payment of exit credits and employer flexibilities made in 2020 and the guidance covering employer flexibilities issued by MHCLG and the Scheme Advisory Board earlier this year.

Exit Credit Policy

Although there is still provision for an exit credit to be paid, it is no longer the case that the exiting employer will automatically be entitled to a payment equal to the amount of any surplus revealed in an exit valuation. The administering authority now has the discretion to determine the amount of an exit credit and the FSS has been changed to include the Kent Fund's approach to the payment of exit credits taking into account:

- the extent to which there is an excess of assets in the Fund relating to the exiting employer over the liabilities in relating to that employer's current and former employees
- the proportion of this excess of assets which has arisen because of the value of the employer's contributions,
- any representations which are made to the administering authority made by the exiting employer and where that employer is an admission body,
- certain other bodies such as (for example) the LGPS scheme employer for whom the admission body is providing services,
- any other relevant factors.

Management of exit payments

Where a cessation valuation reveals a deficit and an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, should it not be possible for the employer to settle this amount, providing the employer puts forward sufficient supporting evidence to the administering authority, the

administering authority may agree a deferred debt agreement (DDA) with the employer under Regulation 64(7A) or a debt spreading agreement (DSA) under Regulation 64B.

The following summarises the proposed operation of the Kent County Council Pension Fund's funding policies in respect of:

- Contribution reviews;
- Deferred debt arrangements; and
- Debt spreading arrangements.

Contribution reviews

A review of an employer's contributions may be triggered by either the administering authority or on request from the employer under the following circumstances:

- The amount of the liabilities arising or likely to arise has changed significantly since the last valuation. Examples include restructuring of a Multi Academy Trust, a significant outsourcing or staff transfer, changes to whether the employer is open or closed to new members or significant changes to the membership of the employer.

- There has been a significant change in the ability of the employer to meet their obligations to the Fund. Examples include provision or removal of security provided to the Fund by the employer or a change in the employer's financial strength.

With the exception of any cases where the Scheme employer is expected to cease before the next rates and adjustments certificate comes into effect, the administering authority will not accept a request for a review of contributions with an effective date within the 12 months preceding the next rates and adjustments certificate.

The final decision as to whether a change in contributions is to be implemented will rest with the administering authority after, if necessary, taking advice from the Fund Actuary.

Deferred debt arrangements

A deferred debt arrangement allows an otherwise exiting employer to continue participating in the Fund with no active members, remaining responsible for paying secondary (deficit) contributions until their exit debt has been paid in full. The exit debt is however not crystallised and will be subject to change depending on the actual experience of the Fund and employer, which may be positive or negative, during the course of the arrangement.

The default arrangement will continue to be that the exiting employer should immediately pay a single lump sum equal to the exit payment calculated by the Fund Actuary. A request from an employer to enter into a deferred debt arrangement may not be accepted if the administering authority believes the employer could reasonably be expected to settle their exit payment in a single amount.

Otherwise, a deferred debt arrangement will be considered if:

- The employer expects to admit active members in future and hence return to active employer status
- The employer cannot afford the immediate payment of the exit payment in full but is able to do so over a longer period
- The employer would prefer or require to reduce costs by continuing to participate in the Fund and potentially benefit from positive investment experience during the course of the agreement.

The final decision as to whether a deferred debt arrangement is permissible will rest with the administering authority. If implemented, the arrangement will be monitored over time and subject to review or termination depending on factors including:

- Changes in the ability or willingness of the employer to fulfil its obligations to the Fund
- New employment of active members
- Timeliness of payments made to the Fund
- Changes in security provided to the Fund
- Whether the agreed duration of the agreement has now elapsed
- Whether the employer has entered insolvency or any other pertinent circumstances of the employer
- Whether the Fund Actuary has determined that sufficient secondary contributions have now been paid.

Once the arrangement is terminated the employer will become an exiting employer and a final termination valuation will then be carried out.

Debt spreading arrangements

A debt spreading arrangement allows an exiting employer to crystallise the cessation debt and spread payments towards this debt over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary. The payments will generally remain fixed and not be subject to future review.

The default arrangement will continue to be that the exiting employer should immediately pay a single lump sum equal to the exit payment calculated by the Fund Actuary. A request from an employer to enter into a debt spreading arrangement may not be accepted if the administering authority believes the employer could reasonably be expected to settle their exit payment in a single amount.

Otherwise, a debt spreading arrangement will be considered if:

- The employer does not intend to employ any more active members
- The employer wishes to crystallise its debt and not be subject to the future funding risks of continuing to participate in the Fund
- The employer cannot afford the immediate payment of the exit payment in full but will be able to do so in the near future
- The employer is deemed to have a very weak covenant and so the administering authority would prefer to try to recoup as much of the exit payment as possible before the employer becomes insolvent.

The final decision as to whether a debt spreading arrangement is permissible will rest with the administering authority.

If implemented, it is expected that the agreed schedule of payments will remain fixed however it may be altered in certain circumstances, including:

- The exiting employer wishes to pay the remaining balance of payments
- Changes in the ability or willingness of the employer to fulfil its obligations to the Fund
- Timeliness of payments made
- Changes in security provided to the Fund
- Any other pertinent changes in circumstances of the employer.