

Exit credit policy

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

Please note that these are guidelines only and the Fund will also consider any other factors that are relevant, or presented to them, on a case-by-case basis.

Admitted bodies:

- a) No exit credit will be payable in respect of admissions who joined the Fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph c) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/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, and those admissions who joined the Fund after September 2020 and chose to become admitted through the Funds former standard admission route.
- b) It is unlikely that an exit credit will be payable to any admission body who participates in the Fund via the default pass through approach (effective from September 2020) as set out in this Funding Strategy Statement. The administering authority will have regard to regulation 64 (2ZC) in determining whether an exit credit is payable. 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 c) below.
- c) 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.
- d) In the absence of this information or if there is any dispute from either party with regards to the interpretation of contractual or risk sharing agreements as outlined in c), the Fund will withhold payment of the exit credit until such

disputes are resolved and the information is provided to the Administering Authority.

- e) Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- f) If the admission agreement ends early, the Fund will consider the reason for the early termination, and whether that should have any relevance on the Fund's determination of the value of any exit credit payment. In these cases, the Fund will consider the differential between employers' contributions paid (including investment returns earned on these monies), the total assets of the employer and the size of any cessation surplus.
- g) If an admitted body leaves on a gilts cessation basis (because no guarantor is in place), then any exit credit will normally be paid to the employer.
- h) The decision of the Fund is final in interpreting how any arrangement described under c), e), f) and g) applies to the value of an exit credit payment.

Scheduled bodies and resolution bodies

- a) 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.
- b) 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.
- c) The decision of the Fund is final in interpreting how any arrangement described under a) and b) applies to the value of an exit credit payment.
- d) If a scheduled body or resolution body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.
- e) If a scheduled body or resolution body leaves on a gilts cessation basis (because no guarantor is in place), then any exit credit will normally be paid to the employer.

General

- a) The Fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.
- b) 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.
- c) 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.
- d) The final decision will be made by the Head 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.
- e) 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.
- f) Where there is an exit credit payable, the Fund will advise the exiting employer of the amount due to be repaid and seek to make the payment within six months of the exit date or such longer time as the administering authority and the exiting employer may agree.

In order to meet the six-month timeframe, the Fund requires prompt notification of an employer's exit and all data and relevant information as requested. The Fund is unable to make any exit credit payment until it has received all data and information requested.

- g) The guidelines above at point e) in the 'Admitted Bodies' section, and at points a) and b) in the 'Scheduled bodies and resolution 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 Section 3 of this document. 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 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 in Section 3.3).

Equally, a shorter than usual funding time horizon or lower than usual likelihood 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.

To add into FSS main body (3.3 note j - Admitted bodies ceasing) with the policy above as an appendix

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 Admission Body.

The Administering Authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all Admission Bodies 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 may determine the amount of exit credit payable to be zero, 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 or Scheme Employer or by someone who owns, funds or controls the exiting employer; or in some cases, the Secretary of State; and
- d) any other relevant factors.

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.

Please refer to appendix F for the Fund's policy on exit credits.