SHROPSHIRE COUNTY PENSION FUND

FUNDING STRATEGY CONSULTATION

IMPORTANT: This letter, the draft Employer Events Framework Policy (EEP) and draft Funding Strategy Statement (FSS) are the start of a formal consultation process which has now commenced and therefore please can you read the proposed EEP and FSS and provide any comments to the Fund by 31 May 2021.

1. Introduction

You were previously provided with a copy of the Shropshire County Pension Fund 2020 Funding Strategy Statement (FSS) which was implemented following the 2019 Actuarial Valuation. The Administering Authority is required to monitor the progress of the funding strategy between full actuarial valuations and review the strategy if it is considered appropriate.

In addition, the Fund has an Employer Events Framework Policy (EEP). This document describes the various “life stages” of an employer that participates in the Fund. It summarises the events and possible outcomes from those events right through until an employer withdraws from the Fund. This includes details on funding policies and supplements the FSS. It should therefore be read in conjunction with the FSS.

Since the 2019 Actuarial Valuation was completed, a number of important regulatory changes have been made and supporting guidance came into force recently to provide greater flexibility to the Fund and employers in reviewing contributions and managing termination debts in certain circumstances. The Fund has considered its policies in these areas and has updated the FSS and EEP to reflect these changes.

In the event that the Fund or employer needs to implement any of these new flexibilities, the policy will be applied on a consistent basis for all employers, but will take into account the circumstances of each employer. In the event of a dispute over the implementation of the new policies, an employer has the right to appeal this, and full details of the appeal process will be communicated at that time. The appeal will be heard by the Council’s Monitoring Officer who will be independent of the initial decision-making process on the application of the new policies. If you have any comments on the appeals process, please provide them alongside your consultation response.

In addition to the above, we have also made some necessary clarification updates to the existing FSS and EEP.

2. FSS and EEP Consultation Requirements

We are consulting with you on this update to the FSS and EEP as a participating employer of the Fund. It should be noted that whilst we will take into account all consultation responses from employers in the Fund, it is ultimately the Administering Authority’s responsibility to formulate and implement Fund policies.

It is strongly recommended that you read and understand the FSS and EEP provided, as it may have an impact on you as an employer within the Shropshire County Pension Fund. We would welcome any comments that you may have in respect of this consultation.

3. <u>How has the Funding Strategy changed?</u>

If certain conditions are met, the changes now allow:

- The Fund to review employer contributions between actuarial valuations (for example, where employers have a significant change in membership or financial covenant)
- An exit debt to be spread over an appropriate period
- An exit debt to be deferred, with the employer remaining in the Fund once all active members have left.

In light of the new Regulations, the Fund is required to include policies within its Funding Strategy Statement (FSS) which set out how the flexibilities will apply in practice for employers. High level information on our draft policies is set out in the FSS with further detail contained in the EEP. The two documents should therefore be considered together.

These policies aim to provide much needed flexibilities to manage the liabilities and have been developed allowing for the guide from the Scheme Advisory Board (SAB) (https://www.lgpsboard.org/index.php/empflexm) and the statutory FSS guidance from the Ministry of Housing, Communities and Local Government (MHCLG) (https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk/outcome/guidance-on-preparing-and-maintaining-policies-on-review-of-employer-contributions-employer-exit-payments-and-deferred-debt-agreements). These policies do not alter the main principles of the current funding plan as agreed as part of the 2019 actuarial valuation.

To implement these new policies the following updates have therefore been made to the Funding Strategy Statement and Employer Events Policy.

Introduction of a new policy - Review of Employer Contributions between Valuations

Previously the contribution rates set out in the Schedule to the Rates and Adjustments Certificate included in the Actuary's valuation report stayed in place until the next valuation (except in limited circumstances or where an employer exits the Fund). The new Regulations allow changes to contributions to be made before the next actuarial valuation under the following circumstances:

a) It appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
b) It appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or
c) A Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review (and point (a) or (b) also applies)

Further details on how this can be applied in practice are set out in within Section 8 of the FSS and Sections 5 of the EEP. <u>These are new policies.</u>

As part of this change, certain employers will be required to notify the Fund of any changes in financial covenant (known as notifiable events) and they will be contacted regarding this as part of the normal covenant review process that the Fund undertakes.

Updates to the Termination Policy when an employer exits the Fund

Whilst the Fund's policy remains that any exit debt is paid up front, the changes now allow us to develop policies that provide alternative options to employers in certain circumstances. As a condition of the Fund, if the employer adopts any of the options then they will be required to supply covenant information and to notify the Fund of any change in circumstances under a notifiable event framework. The conditions for entering into any arrangement will be set out in the agreement between the parties. The options upon termination will therefore be as follows:

1. Upfront payment of the exit debt (the existing approach)
   This will remain as the default option when an employer terminates.

2. Spreading exit payments
   Where the upfront payment of the deficit has been determined as unaffordable by the Fund, the parties can enter into an agreement to instead spread the payment of the final exit debt. This will be over an agreed period of time with the amounts and frequency of the payments in the payment plan agreed at the outset along with any early payment terms. The maximum period proposed in the policy is 5 years from exit, except in exceptional circumstances at the sole discretion of the Fund based on the advice of the Actuary.

3. Deferred Debt Arrangement (DDA)

   Alternatively, where the upfront payment has been determined as unaffordable by the Fund, the parties may enter into a DDA which allows them to defer their obligation to make an exit payment and continue to make contributions to the Fund. Contribution requirements will continue to be reviewed as a minimum as part of each actuarial valuation under this option. This option is essentially an employer continuing ongoing participation, but with no contributing members. The Fund or employer can terminate the DDA and settle a revised (potentially more affordable) exit debt in the future, or the DDA would automatically cease when the exit debt is paid.

Sections 5 of the FSS and Section 6 of the EEP have been updated to reflect the above.

Other Changes

In addition, the termination policy has been updated to clarify the process involved in determining how an exit credit (i.e. a surplus) should be dealt with when an employer exits the Fund. In particular, upon request, the Fund will provide the exiting employer with a notice setting out who will receive the exit credit and the reasons behind this decision (e.g. details of the commercial or admission agreements referenced). The employer will be able to appeal this decision if they do not agree with the determination.

Sections 5 of the FSS and Section 6 of the EEP have been updated to reflect the above.

Some small clarification and technical changes have also been made throughout the document to allow for updated information after the valuation date and to reference the current investment strategy review.

4. Your Comments

We would be very grateful for any comments that you may have in relation to the proposed policy updates. Please respond to pensions@shropshire.gov.uk at the Fund with your comments by 31 May 2021.