TERMINATION POLICY

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West Midlands Pension Fund

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1 INTRODUCTION

1.1 This document details the West Midlands Pension Fund's (the Fund) policy on the methodology for assessment of funding and contribution requirements including termination payments on the cessation of an employer's participation in the Fund. It supplements the general policy of the Fund as set out in the *Funding Strategy Statement (FSS)* as available on the Fund's website.

The *Termination Policy* is inform by the Fund's FSS and the latest CIPFA guidance, prepared and issued in September 2016 in accordance with LGPS Regulations and also the LGPS (Amendment) Regulations 2020.

The *Termination Policy* was last updated in April 2023 and following the 2022 Actuarial Valuation and FSS approved in March 2023. This policy will continue to be reviewed and updated from time to time, to incorporate feedback from employer consultation and at least every three years, to reflect the triennial funding review.

1.2 Scheme admittance, to include employer eligibility, is defined within the 2013 LGPS Regulations: Timeline LGPS Regulations 2013 (lgpsregs.org). Where possible, the Fund require all admission and designated bodies to have a guarantor, which influences assessment of covenant and consideration of contributions payable by employers, including the method used to assess funding on termination.

2 PRINCIPLES

2.1 Termination of Admission Agreement/Employer's Participation

An employer's participation within the Fund ceases when they no longer have any active members within the Fund. This could happen for a number of reasons, typically:

- The last active member participating in the Fund leaves, retires or transfers to another employer and ceases to be a member of the Fund and the employer does not wish to admit any more employees to that admission agreement.
- For admission bodies, the contract to which the admission agreement relates, comes to an end or is terminated prematurely.
- The employer ceases to exist, for example it goes into liquidation or is taken over by/merged with another organisation.

When an employer's participation comes to an end, or is prematurely terminated for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case, the employees will retain pension rights within the Fund, i.e., either deferred benefits or immediate retirement benefits where eligible.

Where an admission agreement is open (or for scheme employers) and the last active member ceases membership of the scheme, the Fund will approach the relevant employer with regards to its intentions for bringing in new active members. Where an intention to allow new active members to join the scheme is identified, the Fund's policy is to allow the employer six months from the date the active member left to admit such members. During this six-month period, the Fund may require payment of a lump-sum amount broadly equivalent to the percentage of contributions calculated by the Fund actuary, based upon the pensionable payroll used in the previous actuarial valuation. It is advised this lump-sum is paid on a monthly basis, or where the period is known until the next active member joins the scheme, a prorated payment can be calculated. In the event an employer with an open admission agreement, or a scheme employer exceeds the six-month period without any active members having joined the scheme under that agreement, the Fund will enforce termination of the employer's participation in the scheme.

2.2 Pre-Funding for Termination

Where appropriate (for example if an employer does not have a guarantor, and has not been admitted through a pass-through arrangement from a scheme employer participating in the Fund), the employer may request to pre-fund for termination, i.e., planning for potential exit by amending their funding approach to minimum-risk and increasing contributions ahead of termination. Pre-funding provides employers with the opportunity to reduce the risk of an uncertain debt being due to the Fund at termination.

For any employing bodies pre-funding for termination, a notional investment strategy may be assumed to reflect the reduction in required return and investment risk. The Fund will notify and agree this approach with employers on a case by case basis, subject to the risk to the Fund and risk appetite of the employer.

3 MANAGEMENT OF TERMINATION OF ADMISSION AGREEMENTS

3.1 Notification of Termination

In many cases, termination of the employing body's participation is an event that can be foreseen, for example in the case of admission bodies, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the regulations, in the event of the administering authority becoming aware of such circumstances, the Fund can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the administering authority that it will cease to be a participating employer. In such cases, employing bodies are requested to open a dialogue with the Fund to commence planning for the termination as early as possible, preferably at least six months in advance of the event.

Where termination is notified in advance and monitored over the period to exit, the Fund may engage with such employers to consider options for limiting the amount of exit debt due in the run up to actual termination of the employer's participation.

3.2 Ongoing Review

The Fund operates an employer risk management framework aimed at reducing its exposure to risk through employer exit linked to natural maturing of membership, contracts and as part of wider monitoring of the strength of employer covenant. As part of the ongoing review, the Fund looks to anticipate when participation might cease and based on reducing active membership. In addition, aligned to the evaluation of employer covenant strength, the Fund considers where there might be employers facing financial difficulties in order to engage early and pre-empt circumstances in which may lead to termination of an employing body's participation.

Where the Fund's review highlights areas for concern, the policy is for a proactive approach whereby dialogue is opened with the employer and, if appropriate, a meeting is scheduled to discuss the issues facing both parties. The aim of such meetings is to assist employer awareness of the potential financial and member implications linked to termination of an admission agreement and where possible consider actions which alleviate exit risk.

It should be noted that the Fund adopts such an approach in the interest of both the Fund and outgoing bodies. It is, however, reliant upon the information available, particularly in assessing the strength of covenant. It is, therefore, vital that organisations contact the Fund at the earliest instance once they become aware that termination of an employer's participation may be a possibility (more information on "notifiable events" can be found in section 4.3 of the *Funding Strategy Statement (FSS)* Funding Strategy Statement March 2023 (wmpfonline.com) and section 1.8 of the *Pension Administration Strategy (PAS)* Pension Administration Strategy Policy Statement May 2023 (wmpfonline.com).

3.3 De-Risking Consideration

The Fund keeps our strategy and approach for employers on a path to exit under regular review. This extends to the balance of prudence in setting contributions in the context of our funding strategy, alongside the affordability and business planning for employers. In undertaking this review, the Fund may consider the appropriateness of measures such as the application of different funding methodologies (see section 2.2.) and alternative investment strategies as a means to reduce investment risk and manage contribution volatility for both the employer and the Fund. In all cases, underpinning any approach will be the participating employer's covenant, including any supporting guarantee or contingent arrangements.

4 IMPLEMENTATION (FULL TERMINATION)

4.1 Exiting the Fund

When an employer's participation in the Fund terminates and the employer becomes an 'exiting employer', the LGPS Regulations require that a termination valuation is carried out. The purpose of this valuation is to determine the level of any surplus or deficit in an exiting employer's share of the Fund as at the exit date and whether the exiting employer is liable to pay an exit payment or is entitled to receive an exit credit in such circumstances. On the cessation of an employer's participation in the Fund, the actuary will be asked to make a termination assessment unless the ceasing employer is a pass-through employer.

The Fund aims to target exiting employers to be close to fully funded at the point of exit to minimise any deficit or surplus. This is managed through ongoing review (see section 3.2) and appropriate setting of contributions at triennial valuations (including the option to pre-fund for termination, see section 2.2). However, it is not always possible to be fully funded on exit for various reasons, notably:

- Unpredictable timing of exit, especially where this depends on the last active members leaving or retiring or in insolvency scenarios.
- Changing economic and market conditions impacting the values of both assets and liabilities;
- Actual member experience being different from the assumptions used in setting contribution rates for that employer – for instance, higher pay increases; or
- The basis for carrying out the termination valuation, e.g. where the employer exit is assessed on a minimum risk basis (and has not been pre-funded)

Other circumstances which could give rise to lower asset share or higher liability upon termination of an employer's participation include the following (please note that this list is not exhaustive):

- Non-payment of contributions to the Fund by an employing body prior to closure.
- Additional liabilities created as a result of the employing body closing, in particular the possible payment of immediate retirement benefits to all those over age 55 at that time.

The method used to calculate the termination valuation will ultimately depend on the characteristics of the exiting employer and in particular whether there is another scheme employer within the Fund that is prepared to act as a guarantor or succession employer for any residual liabilities and also in the context of the materiality of any impact on other participating scheme employers' contributions (see section 4.2).

In context of the wider variety and diversity of employers participating within the Fund, the Fund has the discretion to review and amend the approach on a case-by-case basis, taking into account all factors (financial and non-financial) pertaining to the exiting employer. Appendices 1 & 2 provide a guide to the process undertaken in considering relevant circumstances in the event of employer exit and summarises a range of common scenarios, to assist employers in considering how significant a termination event could be for their organisation and to inform early engagement with the Fund.

4.2 a) Policy for Employers With a Guarantor Participating in the Fund
Where the exiting employer has either:

- a guarantee from a scheme employer participating in the Fund with tax-raising powers;
- a guarantee from a central government department;
- or a guarantee from a scheme employer participating in the Fund, which benefits from a central government guarantee

then the default assessment of the funding position on exit to be considered as calculated on a minimum- risk basis, with the discount rate based upon government gilt yields. In this instance, the scheme employer providing the guarantee will subsume all assets and liabilities from the exiting employer, with the impact of the subsumption feeding into the scheme employer's contribution rate assessments at future actuarial valuations.

No exit debt will be required from the exiting scheme employer. No exit credit determination will be made for the exiting scheme employer unless the exiting employer is in surplus on the minimum-risk valuation basis.

In general, the default assessment would not be applicable for pass-through employers (see 4.3 below) or subject to discussions with both the guarantor and the employer on any commercial terms of risk sharing arrangements between the parties. In this instance, unless otherwise agreed between the employers concerned, the assessment would be based on the ongoing funding level.

Where the default arrangement does not apply, for Schedule 2, Part 3 employers ("contractors"), where the service or contract is due to be transferred to another scheme employer participating in the Fund, subject to agreement from the guarantor, the Fund will consider the transfer of active member liabilities to the new employer based on the funding level of the previous exiting employer, as assessed in line with the assumptions consistent with the most recent actuarial valuation basis). The asset share would transfer in line with *Asset Share Policy*[1], usually predicated upon a fully funding transfer (unless a partially-funded transfer was specified by the guarantor). This is based on the premise that the new employer has a reasonable prospect of retaining contributing employees and/or there is likely to be a succession employer to inherit liabilities.

In this instance the exiting employer will not be required to pay any exit debt and the scheme employer providing the guarantee subsumes all deferred and pensioner liabilities in respect of the exiting employer. In line with the "pass-through" arrangements outlined below, the new employer will pay the same contribution rate (primary rate only) as the scheme employer providing the guarantee scheme employer until next review.

b) Policy for Employers Without a Guarantor Participating in the Fund
Where the exiting employer does not have a guarantor this means that there will not be any future scheme employer or guarantor to make good any shortfall (on exit or in future) between that employer asset share and member liabilities. These liabilities are considered "orphaned" on the basis that, upon cessation, employers in this category have exited the Fund and do not have a scheme employer to subsume their assets and liabilities.
All remaining scheme employers will be exposed to the risk of covering any funding strain arising from "orphaned" liabilities via their own employer contributions, as assessed at each triennial actuarial valuation (as required under Regulation 62 of the LGPS Regulations) and the updated asset share, reflecting movement in funding for orphaned liabilities.

[1] Assets Share Policy 2023 (wmpfonline.com)

In order to protect other scheme employers from the risk of incurring higher contributions in the future, the Fund aims to ensure that there are sufficient assets in the Fund to cover orphan liabilities. This is managed through a combination of case-by-case consideration of exiting employer liabilities through the *Termination Policy* and ongoing review and development of the Fund's investment strategy and association policy statements (ISS). Accordingly, the minimum-risk basis, with the discount rate based upon government gilt yields, provides a. starting point for the assessment of funding on exit but the Fund will further consider the risk exposure, ability to recover and impact on remaining employers in the Fund (and within the Admitted Body Sub Funds where assets and liabilities are segregated).

This is on the basis that, upon cessation, employers in this category are no longer subject to ongoing funding but have instead exited the Fund and do not have a scheme employer to subsume their assets and liabilities.

Accordingly, the policy of the Fund is for assessment of the exit funding position to be based on a minimum-risk basis, with the discount rate based upon government gilt yields of appropriate duration to the liabilities.

4.3 Pass-Through Arrangements

The Fund's default approach and policy from April 2020 is for all new Schedule 2, Part 3 employers ("contractors") to pay the same primary contribution rate as the guarantor employer, with any funding movement and long term obligation and risk remaining with the contracting employer (and guarantor) who already participates within the Fund.

In this context, the Fund will not obtain an actuarial assessment upon termination, instead the contracting employer accepts full responsibility for the contractor's assets and liabilities in the Fund. The contracting employer will be required to address any funding deficit/surplus emerging through the triennial valuation and over the long-term in relation to liabilities accrued in the Fund during the contract. This arrangement is known as a pass-through arrangement. The Fund will seek assurance from employers that pass-through arrangements have been documented in the service contract between the contracting employer (guarantor) and the contractor. In the event that this is not the case the Fund will seek to document this arrangement in the Fund's tripartite admission agreement but it is the responsibility of the contracting employer to agree and document appropriate risk sharing arrangements (including those relating to pensions) with each contractor they appoint.

As an alternative to a pass-through arrangement, if the employer and contractor may agree an alternative arrangement and enter into a standard admission agreement with the Fund, noting 4.2 a) would apply in this instance and liabilities on subsequent transfer of contract determined accordingly. Employers must notify the Fund in advance and with a requirement to finalise and confirm contracting arrangements (including risk share on admission) to the Fund no later than 1 month prior to commencement to enable the Fund to reassign assets and liabilities appropriately and timely and support any members who may be impacted. If such timeframes are not adhered to, the Fund reserves the right to implement the default pass-through arrangement.

The Fund reserves the right to modify this approach on a case-by-case basis, at its sole discretion, if the circumstances warrant it based on the advice of the Fund actuary and taking into account the associated risk to the Fund as a whole. For instance, in the event that parties pursue access to the Fund through a statutory route and did not wish to participate on a pass- through arrangement, then the Fund would need to consider how the new employer and their associated assets and liabilities were assessed on entry.

4.4 Multi-Academy Trusts

Where a single academy trust (SAT) within a multi-academy trust (MAT) fails, there is no power within the regulations for the Fund to commission an exit valuation under Regulation 64, unless it considers that the MAT itself may become an exiting employer and so a valuation under Regulation 64(4) is appropriate. In that case, where a SAT within the MAT has failed, irrespective of whether or not the Department for Education guarantee applies, the liabilities of the exiting academy will fall to be funded by the remaining employers within the MAT rather than becoming orphaned liabilities. The Fund may request the Fund actuary takes this failure into account and adjusts the contributions payable by the remaining employers within the MAT at the next triennial actuarial valuation. The Fund may also ask the Fund actuary to carry out a valuation of the liabilities of the exiting academy in the Fund at the date of exit in order to assess the effect of its failure on the remaining employers within the MAT and ensure the remaining MAT employers (and any new employers joining the MAT) are aware to the extent of these liabilities.

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

4.5 Recovery of Deficits

In the event that an employer's participation in the Fund terminates, a number of varied scenarios will arise for the recovery of deficits, most commonly:

- Employees transfer to a new employer body within the Fund and the successor body takes responsibility for any associated pension liabilities (including those for former employees) and any funding deficits that exist on cessation of the original employing body.
- Where an employer ceases to participate in the Fund and there is no successor body involved, the recovery of deficit initially focuses on the employing body itself and the Fund requires that body to make full and final payment of the least risk deficit.
- In the final event of failure to recover any deficit payment from the employing body, the Fund would place responsibility for the payment of deficit upon any guarantor, which might already exist under the terms of the employer's participation or could be sought to cover the deficit, usually as the original guarantor employer.
- In the event of the employing body going into liquidation, the liquidators would be contacted with a view to extracting as much of the termination deficit from the proceeds of the business as possible. The Fund would act as a creditor and reserves the right to appoint an agent to reclaim monies owed by whatever means necessary.

4.6 Payment of Any Deficit

If it is determined there is a deficit and the employer is required to make a payment to the Fund, the administering authority will confirm to the employer the amount payable.

Unless the likely cost of doing so negates the amount that can be recovered by the Fund, the administering authority will pursue an outgoing body (including the liquidator, receiver, administrator or successor body if appropriate) for any deficit. The administering authority will also pursue any indemnity provider or guarantor for payment where applicable.

The Fund's policy is for any deficit upon termination to be recovered through a single lump-sum payment to the Fund (unless agreed otherwise by the administering authority at their sole discretion). In circumstances of late payment, the Fund will request payment of the appropriate interest amount and expenses, in addition to the termination deficit identified, as calculated by the Fund actuary. The Fund may consider permitting an exiting body to spread payment over a short period, where it considers that this does not pose a material risk to the solvency of the Fund. In such instances, the Fund may request the organisation provides appropriate security to support consideration of a payment plan and, if this is not satisfactory, consideration will be given to an independent financial and governance review. This is covered in more detail within section 5.

Any payment plan implemented will need to be legally documented with any associated costs covered by the exiting employer.

4.7 Payment of Any Surplus

In the instance it is determined by the Fund actuary, based on the parameters set out in 4.2, that a surplus exists and is payable upon employer exit, in accordance with LGPS Regulation 64, the Fund will determine the amount of an exit credit (if any) that is payable to the exiting employer. Any payment from the Fund will take into account expenses (including any future administration expenses) incurred by the Fund. There will be no interest applied to exit credit payments unless agreed with the administering authority. The Fund may determine, at its absolute discretion, the amount of any exit credit payment due, having regard to any relevant considerations.

In determining the amount of any exit credit payable the Fund will take the following factors into consideration:

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

b) the proportion of the surplus which has arisen because of the value of the employer's contributions during the period of its participation within the Fund.

c) any representations made by the exiting employer. Whilst the Fund will take into account representations made by the parties involved, it will not be obliged to enquire into precise risk-sharing mechanisms adopted, and

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

Other relevant factors include the level and amount of contributions the employer has paid to the Fund over the period of participation and towards meeting the cost and long-term liabilities associated with relevant member benefits, which provide a cap on the level of any credit payable. The payment of any exit credit due will be made within six months from the point at which the Fund received written confirmation of the employer's exit and receipt of required data, fully cleansed by the employer concerned.

The administering authority also reserves the right to modify this approach on a case-by-case basis at its sole discretion, if circumstances warrant it based on the advice of the Fund actuary.

4.8 Review of the Approach Applying to Individual Employers on Exit

The approach may be reviewed in the consideration of the circumstances presenting themselves for individual employers on exit. In the context of a market buy-in/buy-out or insurance arrangement, often used in the private sector to secure a transfer of pension risk for full and definitive settlement, the Fund will review the likelihood and significance of residual risk upon exit of an employer. For instance, the Fund reserves the right to apply additional loading for factors such as mortality risk or capitalised administration expenses (e.g. where material legacy data issues are attributable to the employer). Individual employers will be engaged on any change, as applicable.

4.9 Notification

Any employer considering exiting the Fund should provide notifications by email to the Fund at wmpfemployerliaison2@wolverhampton.gov.uk

To plan accordingly, employers should be aware that there is typically a lead in time of six months for undertaking information and information exchange and assessment of pending termination cases. Each employer is responsible for undertaking its own planning and timely consultation (as required) with affected employees and scheme members. It is also worth noting that for admission bodies, there are likely to be clauses within the admission agreement which stipulate the required notice period and the terms under which they would be considered. Therefore, early engagement with the Fund is recommended.

5 POTENTIAL ALTERNATIVES (FLEXIBILITY FOR EXIT DEBT PAYMENTS AND DEFERRED DEBT)

Following the change made to the LGPS Regulations (2013) in September 2020 to introduce "Employer Flexibilities" and accompanied by LGPS Scheme Advisory Board (SAB) guidance, the Fund is willing to engage and consider options with employers on a case-by case-basis and has developed a process for this which will continue to be kept under review and evolve as employer interest and experience develops.

5.1 Policy in Relation to Flexibility for Exit Debt Payments and Deferred Debt

Most relevant for those employers without a guarantor participating in the Fund, the administering authority's policy for termination payment plans is as follows:

- The default position is for exit payments to be paid immediately in full (adjusted for interest where appropriate)
- At the discretion of the administering authority, Debt Spreading Arrangements (DSA) over an agreed period or a Deferred Debt Arrangement (DDA) may be agreed subject to the policy in relation to any flexibility in recovering exit payments.

Debt Spreading Arrangement (DSA) - Allows the Fund and the employer to enter into agreement which spreads the payment of the final exit debt calculated by the Fund actuary over an agreed period of time (the amounts and frequency of the payments in the payment plan will be agreed at the outset along with any early payment terms).

Deferred Debt Arrangement (DDA) - Allows the employer to defer its obligation to make an exit payment and continue to make past service deficit (secondary rate) contributions to the Fund. Contribution requirements will continue to be reviewed as part of each actuarial valuation under this option, which is essentially an employer continuing ongoing participation, but with no contributing members.

If an employer requests that an exit debt payment is recovered over a fixed period of time or that they wish to enter into a DSA or DDA with the Fund, they must make a request in writing covering the reasons for such a request. In recognising the potential complexity and administrative/legal requirements of such an arrangement, this request should be submitted no less than six months in advance of the planned effective date. The Fund will consider all requests received based upon the eligibility principles set out in the sections below. This will also extend to the Fund's own assessment of whether the full exit debt is affordable and whether it is in the interests of other participating employers and in accordance with the Fund's's fiduciary duty to adopt either of the approaches. In making this assessment the Fund will consider the covenant of the employer and also whether any measures to strengthen covenant are required and available to support the arrangements.

Any reasonable costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and will be charged up front as a default but may be included in the contribution plan or exit debt payment at the sole discretion of the administering authority. This policy and processes have been established in line with the principles set out in the statutory guidance issued by the Department for Levelling Up, Housing and Communities (DLUHC) and more detailed guidance prepared by the LGPS Scheme Advisory Board.

5.2 Policy for Eligibility on Spreading Exit Payments (DSA)

The following process will determine whether an employer is eligible to spread their exit payment over a defined period. Employers with a DSA are deemed to be exiting the Fund and such arrangements may be appropriate for an employer with no active members, no intention of returning to active employer status in the future and they wish to crystallise any debt to the Fund. Employers have an obligation to make good on the payments due under the DSA, which when completed will finalise their exit.

1) The administering authority will request updated covenant information from the employer including (but not exclusively) management accounts and financial forecasts. If this information is not provided then the default policy of immediate payment may be adopted.

2) Once this information has been provided, the administering authority (in conjunction with the Fund actuary, covenant and legal advisors where necessary) will review the covenant of the employer to consider the appropriateness of allowing the employer to spread the exit debt over a period of time. Depending on the length of the period and also the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payments.

3) The form of the Debt Spreading Arrangement will be determined by the Fund in discussion with the employer. The payments required will include allowance for interest to reflect later payment.

4) The initial process to determine whether an exit debt should be spread may take up to three months from the later of date of exit or receipt of required information, therefore it is important that employers who request to spread exit debt payments notify the Fund early. There is also an expectation that any agreement to spread exit debt payments and the supporting legal documentation will be completed within twelve months of the date of exit, with a default of immediate payment falling due where arrangements are not concluded within this timeframe.

5) If it is agreed that the exit payments can be spread then the administering authority will engage with the employer regarding the following:

   a) The spreading period that will be adopted (note in general it is expected that the spreading period for a DSA will be shorter than that of a DDA). The initial and annual payments due and how these will change over the period.

   b) The initial and annual payments due and how these will change over the period.

   c) The interest rates applicable and the costs associated with the payment plan.

   d) The level of security required to support the payment plan (if any) and the form of that security e.g., bond, escrow account etc.

   e) The responsibilities of the employer during the exit spreading period including the supply of relevant information and events which would trigger a review of the situation.

   f) The covenant information that will be required on a regular basis to allow the payment plan to continue.

   g) The circumstances under which the payment plan may be reviewed or terminated to potentially include immediate payment of outstanding debt (e.g., where there has been a significant change in covenant or circumstances).

6) Once the administering authority has reached its decision, having consulted with relevant advisors, the arrangement will be legally documented (any supporting documents will be included) and a revised Rate and Adjustment Certificate issued by the Fund actuary.

   In the event that the administering authority believes that the exiting employer may be at increased risk of being able to honour remaining payments, the administering authority will initiate a review and may terminate the DSA to ensure arrangement remain appropriate for the Fund and do not adversely impact the other participating employers.

   The exiting employer may also request to terminate the DSA early, in which case an immediate payment of the outstanding debt, as set out in the schedule to the DSA will be payable.

   Once the exit debt payment has been made in full, the exiting employer has no further obligation to the Fund.

5.3 Policy for Eligibility on Deferred Debt Exit Payments (DDA)

As opposed to triggering and paying an immediate exit debt an employer may request to participate in the Fund with no contributing members – noting the employer may return to active status in the future – and utilise a “Deferred Debt Arrangement” (DDA) at the sole discretion of the administering authority. This would be at the request of the employer in writing to the administering authority ahead of exit. Alternatively, a DDA can be used for employers who do wish to exit, but do not wish to crystallise their debts to the Fund. In this instance the employer would continue to have exposure to funding risk for the duration of the DDA.

The following process will determine whether the Fund and employer will enter into such an arrangement:

1) The administering authority will request updated covenant information from the employer including (but not exclusively) management accounts and financial forecasts. If this information is not provided then a DDA may not be entered into by the administering authority.

2) Once this information has been provided, the administering authority will firstly consider whether it would be in the best interests of the Fund and participating employers to enter into such an arrangement with the employer. This decision will be informed by review of covenant, affordability and potential funding risk to the employer and other employers within the Fund (based on advice from the Actuary, covenant and legal advisor where necessary).

3) The initial process to determine whether a DDA could apply may take up to three months from receipt of the required information. Any employer considering a DDA request to the administering authority must inform the Fund in advance of the exit (or potential exit) date.

4) Noting the steps above, if the administering authority deems that a DDA is appropriate it will base discussions with the employer about the potential format of the agreement upon the principles set out in the LGPS Scheme Advisory Board's guidance, issued March 2021. As part of this, the following will be considered and where relevant, recorded within the legal agreement:

    a) Any security the employer can offer whilst the employer is participating within the Fund. As a general principle, the administering authority will not enter into such an agreement unless they are confident that the employer can support the arrangement over the duration of the agreement.

    b) The categorisation that would be applied to the employer for funding purposes.

    c) Any upfront cash payment payable to the Fund at the outset to reduce the outstanding debt.

    d) The updated secondary rate of contributions (payment plan) required up to the next valuation.

    e) The financial information that will be required on a regular basis to allow the employer to remain in the Fund and online monitoring that will be undertaken by the Fund.

    f) The advice of the Fund actuary, covenant, legal and any other specialists necessary.

    g) The responsibilities that would apply to the employer while they remain in the Fund.

    h) Conditions that may trigger the implementation of a review of the DDA and revised payment plan.

    i) Potential triggers might include the removal or loss of any security or a significant change in covenant assessed as part of the regular monitoring.

    j) The circumstances under which the employer may be able to vary the arrangement e.g., a further cash payment or change in security underpinning the agreement.

    The administering authority make a final decision on whether it is in the best interests of the Fund and other participating employers to enter into a DDA with the employer and confirm the terms that are required. Where a DDA is entered into, a revised Rates and Adjustment certificate will be issued by the Fund actuary.

5) For employers who enter into a DDA, their deficit will be re-calculated as part of each actuarial valuation and new contribution rates will be certified by the Fund actuary and included in the Rates and Adjustment certificate. Contributions may be reviewed earlier in line with the DDA if any of the agreed triggers are met.

6) The costs associated with the advice sought and drafting of the DDA will be passed onto the employer as part of the arrangements and contribution requirements. Unless otherwise agreed, a DDA will terminate on the first of the following events:

    a) the deferred employer enrols new active members;

    b) the duration of the agreement has elapsed;

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

    d) having monitored the employer's ongoing ability to support its obligations, the administering authority is satisfied that the DDA may cease with no further obligation from the employer.

The deferred employer can also choose to terminate the DDA at any point. Notice should be given to the administering authority at the earliest opportunity.

Termination clauses will be included in the formal DDA legal agreement.

Once a termination of the DDA has been triggered, the deferred employer becomes an exiting employer under Regulation 64(1). The administering authority will obtain from the Fund actuary an exit valuation calculated at the date the DDA terminates and advise the employer of any further payments due.

Once the exit debt payment has been made in full, the exiting employer has no further obligation to the Fund.

If the termination has been triggered because the deferred employer has enrolled new active members then the deferred employer becomes an active employer in the Fund and an immediate exit payment may not be required; this may instead be incorporated in the revised Rates and Adjustments Certificate that will be provided in respect of the active employer. The employer remains responsible for all previously accrued liabilities and the revised contributions required from the active employer will be calculated in line with the Fund's *Funding Strategy Statement (FSS)*.

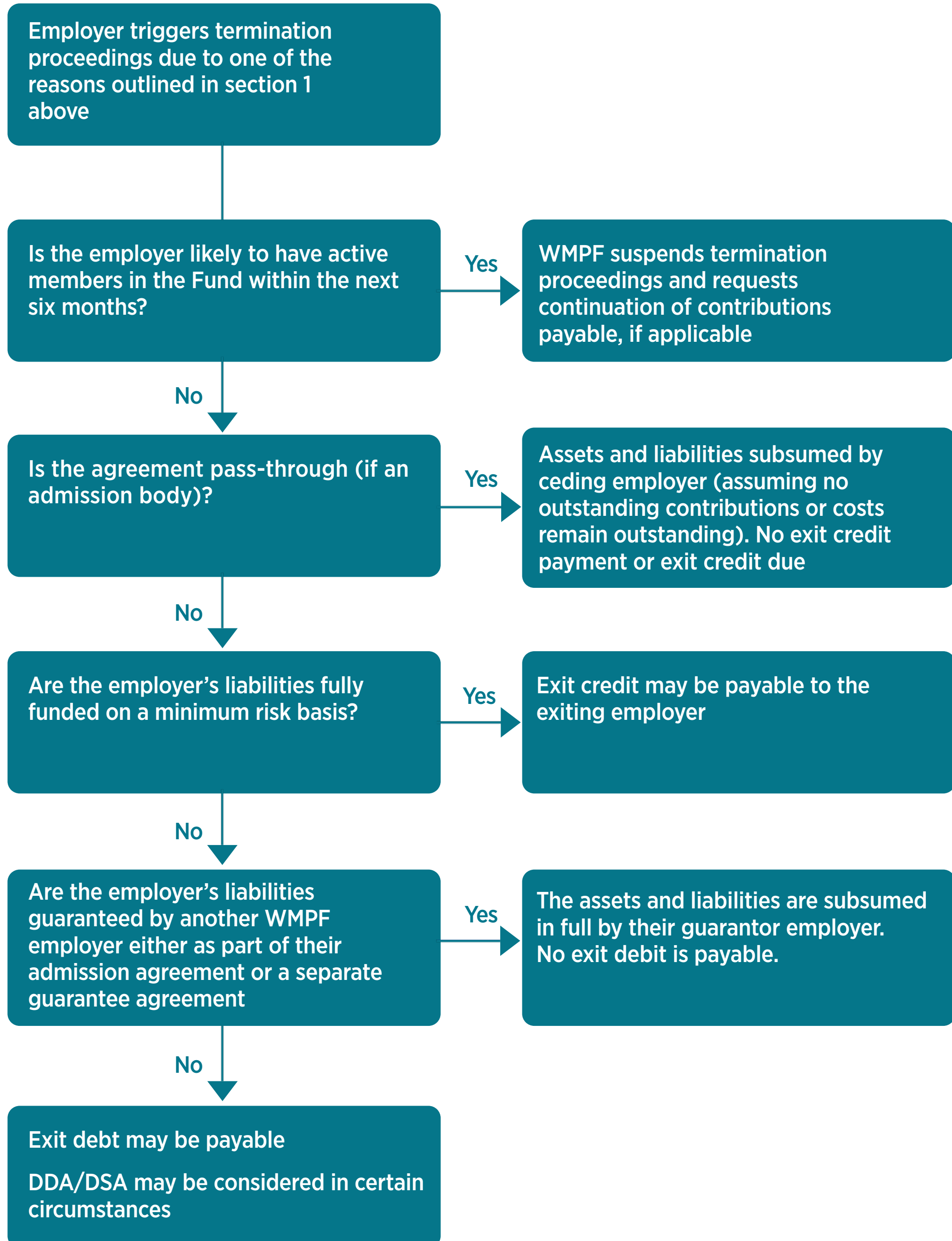
Detailed terminology outlined within the termination policy can be found within the FSS policy.

6 REVIEW

6.1 Review of the Termination Policy

The policy will be reviewed as a matter of course at each actuarial valuation, but may also be reviewed with changes to regulations, guidance or material events, which may trigger a requirement for review. This review would include ensuring that the approach remains appropriate, given the risk associated with funding the liabilities left behind by an exiting employer is being passed to other Fund employers (last man standing). This means that the assumptions (both financial and demographic) can be changed if circumstances warrant it. Employers would be notified of any change and consulted where appropriate (including the rationale for the change) and the policy would be updated.

APPENDIX A – WMPF TERMINATION ILLUSTRATIVE PROCESS FLOWCHART



APPENDIX B – ILLUSTRATIVE EMPLOYER EXIT EVENTS AND APPLICATION OF TERMINATION POLICY

Outlined in the table below are illustrative events and scenarios upon exit where cessation liabilities may crystallise, transfer between employers or outside of the Fund. Also included is an outline of existing employer arrangements and how the Fund's policy/approach is expected to apply in the event of one of these scenarios.

These are purely illustrative and intended to inform employer planning and advance consideration. In line with the *Pensions Administration Strategy*, the Fund encourages employers to engage prior to exit events and provide notifications in advance. The Fund reserves the right to apply an alternative approach in line with this policy and with associated employer engagement.

Example Employer Exit Events

Event/ scenario	Drivers / considerations	Possible funding approach	Assessment required
Employer exit due to no active members	• Last active member leaves (6-month grace if open to employees (see section 2.1)) • Employer contract ends (triggering end to admission agreement) • Employer ceases to operate (administration/liquidation)	Default exit credit/ deficit payment Potential DSA/DDA option if no pass through In cases of liquidation, recovery will be subject to insolvency process	Default, actuarial assessment of credit/deficit at date of exit
Employer exit due to restructuring (notifiable event)	Typically: • Merger and acquisition at employer level • Restructuring of participation within the LGPS	Potential trigger of exit debt unless bulk transfer agreed	Depending on circumstances, including residual liabilities in Fund and underlying employer covenant
Employer seeking managed exit/ "pre-funding agreement" ahead of DSA/ DDA	For example: • Seeking risk reduction and mitigation of exposure to high exit debt at point of exit	Potential interim step to ongoing and exit funding requirement in accordance with FSS	Depending on circumstances and underlying employer covenant, with potential consideration of de-risking options as set out in section 3.3

Example Employer Arrangements and Potential Application of Policy/Approach

Event/ scenario	Drivers / considerations	Possible funding approach	Assessment required
a) Pass through admission arrangement (or contract transferring to)	Default position for contracts and admission agreements since April 2020	Assets and liabilities (members) are subsumed by ceding employer if ceasing employer no longer active	For a new contract/ employers - share of assets to new contractor for active member past service (fully funded). Transfer of remaining assets to ceding employer
b) Exiting employer with guarantor (scheme employer in Fund)	Typical for: • Local authority backed community bodies • Non-pass through admissions • Academy schools sub-contracting	Assets and liabilities (members) are subsumed by guarantor	Default approach - actuarial assessment of credit/debt at date of exit Transfer of past service liabilities and assets to guarantor Surplus over "minimum risk" funding may be paid to exiting employer as an exit credit
c) Exiting employer with guarantor(s) (outside of Fund)	Typically: Central government backed organisation e.g. Department of Education (DfE) for academy schools or other central government department for charitable organisations. Organisations covered by individual guarantee arrangements, for instance parent company guarantee.	Determined by individual circumstances with default of immediate upfront payment from the participating employer DSA/DDA could be agreed with employer subject to considerations set out in sections 4.10 and 4.11	Default approach - actuarial assessment of credit/debt at date of exit
d) No guarantor (new orphan liabilities)	Any employer without central or local government backing. Includes at date of this policy: • Higher education and further education organisations. • Legacy admission bodies with no guarantor	DSA/DDA option at the discretion of the Fund, subject to covenant	Default, actuarial assessment of credit/ debt at date of exit

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