

F+PC 31/01/22

Agenda 9c

Milly Southworth

From: Matthew Allen (Cornwall Pension Fund) <matthew.allen@cornwall.gov.uk>
Sent: 10 January 2022 09:26
To: Cornwall Pension Fund
Cc: Matthew Davies; Matthew Allen (Cornwall Pension Fund)
Subject: Employer Newsletter (January 2022)

Importance: High

Information Classification: CONTROLLED

Employer Newsletter

January 2022



Cornwall
Pension
Fund

Happy New (*Valuation*) Year!

We would like to wish all our employers a Happy New Year.

Over the festive and New Year period, we received increased enquiries from your members enquiring about checking their personal details, updating their nominations and obtaining pension estimates. Now is the ideal time to remind your members that they can sign up to our member self-service facility called My Pension Online, where they can check and update these details quickly and securely online.

Your members can sign up for this service by initially completing an Access Form found on our website.

For further details and to sign up for My Pension online via the Access Form, please visit: <https://www.cornwall.gov.uk/jobs-and-careers/cornwall-pension-fund/useful-links/my-pension-online/>

2022 will bring the next triennial valuation exercise, with the last one being conducted in 2019. The triennial valuation will use your membership data as at 31st March 2022 to help calculate your employer contribution rates from April 2023.

Now is the time to ensure all your membership data is accurate including reviewing all your timesheet or casual workers, making them leavers with us if they haven't worked for some time, otherwise these will be included in your membership data used in the triennial valuation. Inaccurate or incomplete data could lead to the actuaries making assumptions, which could significantly increase your employer contributions from April 2023.

More details about the triennial valuation and the 2021/2022 year end will follow, in the coming months.

REMINDER | Population data check

We will be shortly contacting all non-Cornwall Council/HR Transactional Services maintained payroll employers to check the pension population data that we hold for your organisation ahead of starting the year end process in this triennial valuation year.

These employers will need to check the details for their members and provide a response with any updates to the Fund by the 11th February 2022.

Are the right people receiving this communication?

Please ensure that staff responsible for providing information to us from your organisation receives this communication and if necessary, please notify us of the updated contact details for your organisation.

Contact:



Cornwall Pension Fund. 4th Floor South Wing, County Hall, Truro TR1 3AY

Milly Southworth

From: Matthew Allen (Cornwall Pension Fund) <matthew.allen@cornwall.gov.uk>
Sent: 21 January 2022 08:15
To: Cornwall Pension Fund
Subject: Funding Strategy Statement Consultation with Employers
Attachments: Funding Strategy Statement updated.pdf

Importance: High

Information Classification: CONTROLLED

Good Morning,

Following the approval of the Cornwall Pension Fund Funding Strategy Statement at the Pensions Committee meeting on 12th March 2020, there has been a change in Regulations.

The changes in Regulations provide:

- Additional flexibility for the Fund and employers to manage exit payments from the Fund (Note (j), pages 18-21 of the attached)
- The flexibility for a review of contributions to be carried out between the Triennial valuation (Note (f), page 15 of the attached)

Officers of the Fund have worked with the Fund's Actuary (Hymans Robertson) to update the Funding Strategy Statement (FSS) following the changes in Regulations (*all updates are highlighted in the attached*).

On 9th December 2021 the Pensions Committee voted to approve the updates to the Funding Strategy Statement to go out for consultation with the Fund's employers.

If you have any comments or feedback on the updated Funding Strategy statement, please provide this to matthew.allen@cornwall.gov.uk, by 21st February 2022. Any feedback from employers will be brought back to the March 2022 Pension Committee meeting prior to the updated Strategy being voted on and formally adopted by the Fund.

Regards,

Matt Allen | Assistant Pensions Benefits Manager (Interim)
Cornwall Pension Fund

matthew.allen@cornwall.gov.uk | Tel: 01872 322322 or  [MS Teams](#)
www.cornwallpensionfund.org.uk

4th Floor South Wing, County Hall, Truro, TR1 3AY

Note (f) (Regular Reviews)

Under the Regulations the Fund may amend contribution rates between valuations for "significant change" to the liabilities or covenant of an employer; this may result in a material increase or decrease in contributions, depending on the circumstances. The Fund would consider the following circumstances as a potential trigger for review:

- in the opinion of the 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 scheme within the next two years and before completion of the next valuation;
- an employer agrees to pay increased contributions to meet the cost of an award of additional pension, under Regulations 31(3) of the Regulations;
- there are changes to the benefit structure set out in the LGPS Regulations including the outcomes of the McCloud case and cost sharing mechanisms (if permitted in Regulation at that time) 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 (i.e. a material change in employer covenant);
- it appears to the Administering Authority that the membership of the employer has changed materially such as bulk transfers, significant restructures 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.

The Administering Authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets 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).

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 change in contributions outside a formal valuation.

The Rates & Adjustments Certificate will be updated as necessary, following such a review.

The Administering Authority will also consider guidance in such matters from the Scheme Advisory Board as issued from time to time.

HYMANS ROBERTSON LLP

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. Alternatively, letting employers and Transferee Admission Bodies may operate any of the above options by entering into a separate Side Agreement. The Administering Authority would not necessarily be a party to this side agreement, but may treat the Admission Agreement as if it incorporates the side agreement terms where this is permitted by legislation or alternatively agreed by all parties.

Any risk sharing agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Exiting the Fund)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund;
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund; or
- On termination of a deferred debt agreement.

On cessation, in the absence of a deferred debt arrangement, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus.

Payment of cessation debt

Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body. The Fund's normal policy is that this cessation debt is paid in a single lump sum within 30 days of the employer being notified.

However, in line with the Regulations and when in the best interests of all parties, the Fund may agree for this payment to be spread over an agreed period, however, such agreement would only be permitted at the Fund's discretion, where payment of the debt in a single immediate lump sum could be shown to be materially detrimental to the employer's normal operations. In cases where payment is spread, the Fund reserves the right to require that the ceasing employer provides some form of security (such as a charge over assets, bond indemnity or guarantee) relating to the unpaid amount of debt at any given time.

The length of any spreading period will depend on the employer's financial circumstances and on the strength of any security provided, and ordinarily would not exceed 5 years. The Fund will confirm the spreading period, annual repayments including any interest (interest will be payable in line with the investment return assumption underlying the Fund's ongoing funding target), and any other costs (e.g. actuarial or legal) payable by the employer prior to the repayments starting. The Fund will monitor the employer's circumstances regularly during the spreading period and may request updated financial information that could trigger a review of the arrangement and repayments. The Fund will endeavour to accommodate any such spreading arrangement or review within 3 months of receipt of the relevant evidence from the employer.

Consideration of surplus / exit credit

Where there is a surplus, the Administering Authority will determine the amount of exit credit to be paid in accordance with the Regulations and the Fund's cessation policy. In making this determination, the Administering Authority will consider:

- the extent of any surplus,
- the proportion of surplus arising as a result of the employer's contributions,
- any representations (such as risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee (or some other form of employer assistance/support) and
- any other factors the Administering Authority deem relevant.

Please refer to the [Fund's cessation policy](#) for full details of the considerations in respect of payment of an exit credit.

Allowance for McCloud on cessation

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply a bespoke loading to the ceasing employer's active and deferred liabilities, as an estimate of the possible impact of resulting benefit changes.

Allowance for expenses on cessation

The Fund Actuary charges a fee for carrying out an employer's cessation valuation, and there will be other Fund administration expenses associated with the cessation, both of which the Fund will recharge to the employer. For the purposes of the cessation valuation, this fee will be treated as an expense incurred by the employer and will be deducted from the employer's cessation surplus or added to the employer's cessation deficit, as appropriate. This process improves administrative efficiency as it reduces the number of transactions required to be made between the employer and the Fund following an employer's cessation.

Actuarial basis on cessation

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

HYMANS ROBERTSON LLP

- a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final surplus/deficit will normally be calculated using a "gilts exit basis", which is more prudent than the ongoing participation basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.
- b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing participation basis or contractor exit basis as described in [Appendix E](#);
- c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund may spread the payment subject to there being some security in place for the employer such as an indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

Deferred Debt Agreement ("DDA")

As an alternative, where the ceasing Admission Body is continuing in business, the Administering Authority may enter into a written agreement with the Admission Body to defer their obligations to make an exit payment and continue to make secondary contributions (a 'Deferred Debt Agreement' as described in Regulation 64 (7A)). The Admission Body must meet all active employer requirements and pay the secondary rate of contributions as determined by the Fund Actuary until the termination of the deferred debt agreement.

- The Administering Authority will consider deferred debt agreements in the following circumstances:
- The Admission Body requests the Fund consider a deferred debt agreement;
- The Admission Body is expected to have a deficit if a cessation valuation was carried out;
- The Admission Body is expected to be a going concern; and
- The covenant of the Admission Body is considered sufficient by the Administering Authority.
- The Administering Authority will normally require:
- Security be put in place covering the Admission Body's deficit on their cessation basis;
- Regular monitoring of the contribution requirements and security requirements;

- All costs of the arrangement are met by the Admission Body, such as the cost of advice to the Fund, ongoing monitoring of the arrangement, and correspondence on any ongoing contribution and security requirements.
- A deferred debt agreement will normally terminate on the first date on which one of the following events occurs:
 - the Admission Body enrolls new active Fund members;
 - the period specified, or as varied, under the deferred debt agreement elapses;
 - the take-over, amalgamation, insolvency, winding up or liquidation of the Admission Body;
 - the Administering Authority serves a notice on the Admission Body that the Administering Authority is reasonably satisfied that the Admission Body's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months;
 - the Fund actuary assesses that the Admission Body 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 (i.e. Admission Body is now largely fully funded on their cessation basis);
 - the Fund actuary assesses that the Admission Body's value of liabilities has fallen below an agreed *de minimis* level, if the employer becomes an exiting employer on the calculation date; or
 - The Admission Body requests early termination of the agreement and settles the exit payment in full as calculated by the Fund actuary on the calculation date (i.e. the Admission Body pays their outstanding cessation debt on their cessation basis).
- On the termination of a deferred debt agreement, the Admission Body will become an exiting employer and a cessation valuation will be completed in line with this FSS.

N.B. this approach must be agreed by the Chairman and Vice Chairman of the Pensions Committee and the Cornwall Council's Section 151 Officer.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

The intention of the pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

On the other hand it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.