

London Borough of Tower Hamlets Exit Credit Policy Statement

The below sets out the general guidelines that the London Borough of Tower Hamlets Pension Fund (“the Fund”) will follow when determining the amount of an exit credit payable 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 on a case-by-case basis.

These considerations may result in a determination that would be different if these guidelines were rigorously adhered to. In all cases, the Fund will make clear its reasoning for any decision.

Admitted bodies

1. 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 point 3 below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and the Fund assumes this was reflected in the commercial terms agreed between the admission body and the letting authority. This will also apply to any pre-14 May 2018 admission which has been extended or ‘rolled over’ on the same terms that applied on joining the Fund.

2 No exit credit will be payable to any admission body who participates in the Fund via a pass through approach.

3 The Fund will make an exit credit payment (if any) 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 within one month of the admission body ceasing participation in the Fund.

4 If there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in 3, the Fund will withhold payment of the exit credit until such disputes are resolved.

5 The Fund will also consider any representations made by the letting authority regarding monies owed to them by the admission body in respect of the contract that is ceasing or any other contractual arrangement between the two parties. The letting authority must make such representations in a clear and unambiguous document within one month of the admission body ceasing participation in the Fund.

6 Where a guarantor or similar 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.

7 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) and the size of any cessation surplus.

8 The decision of the Fund is final in interpreting how any arrangement described under 3, 5, 6 and 7 applies to the value of an exit credit payment.

9 If an admitted body leaves on a gilts-exit basis (because no guarantor is in place) as set out in the Funding Strategy Statement, then any exit credit will normally be paid in full to the employer.

Scheduled bodies and resolution bodies

1 Where a guarantor or similar 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.

2 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.

3 The decision of the Fund is final in interpreting how any arrangement described under 1 and 2 applies to the value of an exit credit payment.

4 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.

5 If a scheduled body or resolution body leaves on a gilts-exit basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

General

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. 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.

The Fund will also factor in if any contributions due or monies owed to the Fund that remain unpaid by the employer at the cessation date. The Fund's default position will be to deduct these from any exit credit payment. The final decision will be made by Neville Murton, the Section 151 officer with responsibility for the Fund, in conjunction with advice from the Fund's Actuary and/or legal advisors where necessary, in consideration of the points held within this policy.

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.

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. 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.

If the exiting employer or letting authority wishes to dispute the determination of the amount of an exit credit, this must be routed through the Fund's internal dispute resolution process in the first instance.

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