

Suffolk Pension Fund
Funding Strategy Statement
July 2023



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Suffolk Pension Fund – Funding Strategy Statement

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1 Welcome to our Funding Strategy Statement

This document sets out the Funding Strategy Statement (FSS) for Suffolk Pension Fund (the Fund).

The Suffolk Pension Fund is administered by Suffolk County Council, known as the administering authority. Suffolk County Council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 28 February 2023.

There's a regulatory requirement for Suffolk County Council to prepare an FSS. You can find out more about the regulatory framework in [Appendix A](#). If you have any queries about the FSS, contact paul.finbow@suffolk.gov.uk or Sharon.tan@suffolk.gov.uk.

1.1 What is the Suffolk Pension Fund?

The Suffolk Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the Fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in [Appendix B](#).

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the Fund, because it sets out how money will be collected from them to meet the Fund's obligations to pay members' benefits.

Different types of employers participate in the Fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the Fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies

Other employers can join through an admission agreement. The Fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the Fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the Fund's investment strategy [here](#).

The funding and investment strategies are closely linked. The Fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the Fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see [Appendix A](#))

1.6 How is the funding strategy specific to the Suffolk Pension Fund?

The funding strategy reflects the specific characteristics of the Fund employers and its own investment strategy.

2 How does the Fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of two elements:

- **the primary contribution rate** – contributions payable towards funding future benefits accruing
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution

The primary rate also includes an allowance for the Fund's expenses, calculated at each formal valuation.

The Fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in [Appendix D](#).

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the Fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

2.2 The contribution rate calculation

Table 1: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs
	Councils, Police	Academies	Other Scheduled Bodies	Open to new entrants	Closed to new entrants	Without pass-through arrangements
Funding target*	Ongoing	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis		Ongoing
Minimum likelihood of success	75%	75%	80%	75%	75%	75%
Maximum time horizon	20 years	20 years	20 years	15 years	15 years	15 years
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					

Type of employer	Scheduled bodies			CABs and designating employers		TABs
	Sub-type	Councils, Police	Academies	Other Scheduled Bodies	Open to new entrants	Closed to new entrants
Secondary rate	% of payroll	% of payroll	% of payroll	% of payroll	Monetary amount	% of payroll
Stabilised contribution rate?	Yes	Yes	No	No	No	No
Treatment of surplus (assessed at valuation date)	If past service funding position is less than 115%*, total contribution rate must be set at least at the primary rate			Total contribution rate must be set at least at the primary rate. However, reductions may be permitted by the administering authority subject to additional consideration of the low-risk exit basis position		If past service funding position is less than 115%*, total contribution rate must be set at least at the primary rate
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	3 years	3 years	3 years	3 years

* The past service funding position is that assessed as at the triennial funding valuation date, using the triennial funding valuation assumptions and based on full individual membership data and actual assets.

Employers participating in the Fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting employer, subject to Administering Authority approval. See Appendix G for further details.

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The Fund adopts a stabilised approach to setting contributions for long-term tax raising employers, which aims to keep contribution variations within a pre-determined range from year-to-year. Stabilisation criteria and limits are reviewed during each triennial valuation process.

The administering authority believes a stabilised approach is a prudent long-term strategy and the robustness of this approach was once again tested by extensive asset liability modelling (ALM) carried out by the Fund actuary at the 31 March 2022 funding valuation.

Using the ALM results and in light of sustained funding improvements achieved by the Fund across multiple triennial valuations, some stabilised employers have had their starting contribution rate levels reassessed at the 2022 funding valuation. At the 2022 funding valuation only, some stabilised employers may therefore experience a 2022/23 total contribution rate change of greater than 1% of pay when compared to their 2021/22 total contribution rate.

Table 2: stabilisation approach (from 1 April 2023)

Type of employer	Councils, Police	Academies
Maximum contribution increase per year	+1% of pay	+1% of pay
Maximum contribution decrease per year*	-1% of pay	-1% of pay

* Please note the employer's total contribution rate has a minimum level equal to the employer's assessed primary rate, subject to the assessed level of the employer's funding position at each triennial valuation – see Table 1 in Section 2.2 above).

2.4 Reviewing contributions between valuations

The Fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The Fund's policy is available in [Appendix E](#). The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.5 What is pooling?

The administering authority operates funding pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In this type of pooling arrangement, employers do not target full funding at exit. While the Fund receives the contributions required, the risk that employers will be entitled to a surplus payment on exit increases.

Employers in a pool maintain their individual funding positions, tracked by the Fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren't disclosed to pooled employers, unless agreed by the administering authority.

CABs that are closed to new entrants aren't usually allowed to enter a pool.

TABs are usually also ineligible for pooling. However, depending on the contract circumstances, some TABs may be pooled with their letting authority.

If an employer leaves the Fund, the required contributions are based on their own funding position rather than the pool average. Cessation terms also apply, which means higher contributions may be required at that point.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments. The Fund's policy is that any additional contributions are normally payable immediately.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum.

For some larger employers, the Fund will monitor an ill-health based on the assumptions from the most recent valuation. When the budget is used up, additional contributions will be requested. Details are included in each admission agreement.

To mitigate this risk, employers may choose to use external insurance made available by the Fund.

The Fund's policy is detailed in [Appendix F](#).

4 How does the Fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The Fund adopts a cashflow approach to track individual employer assets.

The Fund uses Hymans Robertson's Employer Asset Tracker (HEAT) system to track employer assets monthly. Each employer's assets from the previous month end are added to monthly cashflows paid in/out and investment returns to give a new month-end asset value.

If an employee moves one from one employer to another within the Fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the Fund actuary will calculate assets linked to the value of the liabilities transferring (see Section 2).

4.2 How are employer liabilities calculated?

The Fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in [Appendix D](#), the Fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Benefits are valued in line with the regulations in force at the time of the valuation, with an exception relating to the McCloud ruling. The benefits of members likely to be affected by the McCloud ruling have instead been valued in line with the expected regulations, reflecting an underpin as directed by DLUHC

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liability value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See Section 2 for further information on rates.

5 What happens when an employer joins the Fund?

5.1 When can an employer join the Fund

Employers can join the Fund if they are a new scheduled body or a new admission body. New designated employers may also join the Fund if they pass a designation to do so.

On joining, the Fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.3 below.

5.2 New academies

New academies (including free schools) join the Fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the Fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The Fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. They won't be pooled with other employers unless the academy is part of a multi-academy trust (MAT). If they are part of a MAT, the new academy can be combined with the other MAT academies to set contribution rates.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

The Fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

5.3 New admission bodies as a result of outsourcing services

New admission bodies usually join the Fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating Fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the Fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the administering authority or in the contract admission agreement.

The Fund's policy is willing to administer any new admission bodies under a pass-through arrangement. The Fund's policy on pass through is detailed in [Appendix G](#).

Where an academy is the letting employer, the Fund's preferred approach is for the admission body to be set up as a pass-through arrangement which is closed to new members. This is to ensure that the 'Department for Education (DfE) Academy Trust LGPS Guarantee policy' can apply to the outsourcing.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the Fund, eg set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the Fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the Fund.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the Fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the Fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

Where an academy is the letting employer, the Fund will expect academies to ensure and confirm that the outsourcing complies with the requirements set out in the DfE Academy Trust LGPS Guarantee policy before permitting an admission body in the Fund. Where this requirement is met, no additional risk assessment or security will typically be required for the admitted body as the pension liabilities will be covered by the DfE Academy Guarantee.

Where the admission body does not meet the requirements of the DfE Academy Trust LGPS Guarantee policy, the Fund will review each case individually to decide if the admission body must provide security before being admitted to the Fund. In these cases, the Fund will typically require the academy to evidence that they have sought and received permission from the Education and Skills Funding Agency to act as a guarantor.

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the Fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the Fund, or the value of the liabilities of the transferring members, whichever is lower
- the Fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the Fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

7 What happens when an employer leaves the Fund?

7.1 What is a cessation event?

Triggers for considering cessation from the Fund are:

- the last active member stops participation in the Fund. The administering authority, at its discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the Fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the Fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the employer leaves the Fund.

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining Fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in [Appendix D](#).

- (a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in [Appendix D](#).
- (b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the Fund.
- (c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the Fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other Fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The Fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and fund.

The cessation policy is in [Appendix H](#).

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much (if any) will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The exit credit policy is covered in the cessation policy in [Appendix H](#).

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement (DSA)
- if an exiting employer enters into a deferred debt agreement, it stays in the Fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The employer flexibility on exit policy is covered in the cessation policy in [Appendix H](#).

7.5 What if an employer has no active members?

When employers leave the Fund because their last active members have left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the Fund and either:

- a) their asset share runs out before all ex-employees' benefits have been paid. The other fund employers will be required to contribute to the remaining benefits. The Fund actuary will portion the liabilities on a pro-rata basis based on each employer's share of overall liabilities at each formal valuation, or
- b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The Fund actuary will apportion the remaining assets to the other fund employers based on each employer's share of overall liabilities at each formal valuation.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a Section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the Fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

- (a) employers collectively can increase their contributions, or the Fund can realise contingencies to target a 100% funding level

or

- (b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for Fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the Fund's actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward
- support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**
- ensure the fund meets its **solvency and long-term cost efficiency** objectives
- take a **prudent longer-term view** of funding those liabilities.

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "persons the authority considers appropriate". This should include 'meaningful dialogue... with council tax raising authorities and representatives of other participating employers'.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers and the Local Pensions Board in October 2022 for comment;
- b) Comments were requested by **30 December 2022**;
- c) **Following the end of the consultation period the FSS was updated where required and then published, in February 2023.**

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the Suffolk Pension Fund website, at www.suffolkpensionfund.org;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall Fund documentation?

The FSS is a summary of the Fund's approach to funding liabilities. It isn't exhaustive – the Fund publishes other statements like the Investment Strategy Statement, Governance Strategy and Communications Strategy. The Fund's annual report and accounts also includes up-to-date Fund information.

You can see all fund documentation at www.suffolkpensionfund.org

Appendix B – Roles and responsibilities

B1 The administering authority:

- 1 operates the Fund and follows all Local Government Pension Scheme (LGPS) regulations
- 2 manages any conflicts of interest from its dual role as administering authority and a Fund employer
- 3 collects employer and employee contributions, investment income and other amounts due
- 4 ensures cash is available to meet benefit payments when due
- 5 pays all benefits and entitlements
- 6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy
- 7 communicates with employers so they understand their obligations
- 8 safeguards the Fund against employer default
- 9 works with the Fund actuary to manage the valuation process
- 10 provides information to the Government Actuary's Department so they can carry out their statutory obligations
- 11 consults on, prepares and maintains the funding and investment strategy statements
- 12 tells the actuary about changes which could affect funding
- 13 monitors the Fund's performance and funding, amending the strategy statements as necessary
- 14 enables the local pension board to review the valuation process.

B2 Individual employers:

- 1 deduct the correct contributions from employees' pay
- 2 pay all contributions by the due date
- 3 have appropriate policies in place to work within the regulatory framework
- 4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain
- 5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.
- 6 make any required exit payments when leaving the Fund.

B3 The Fund actuary:

- 1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency
- 2 provides information to the Government Actuary's Department so they can carry out their statutory obligations
- 3 advises on Fund employers, including giving advice about and monitoring bonds or other security
- 4 prepares advice and calculations around bulk transfers and individual benefits

- 5 assists the administering authority to consider changes to employer contributions between formal valuations
- 6 advises on terminating employers' participation in the Fund
- 7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

- 1 internal and external investment advisers ensure the Investment Strategy Statement (ISS) is consistent with the Funding Strategy Statement
- 2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of Fund assets in line with the ISS
- 3 auditors comply with standards, ensure Fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements
- 4 governance advisers may be asked to advise the administering authority on processes and working methods
- 5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures
- 6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the local pension board is set out in the Suffolk County Council's Constitution, board terms of reference available [Part 1 Articles of the Constitution \(suffolk.gov.uk\)](https://www.suffolk.gov.uk/part-1-articles-of-the-constitution)

Details of the key fund-specific risks and controls are below.

C2 Financial risks

Risk	Control
Fund assets don't deliver the anticipated returns that underpin the valuation of liabilities and contribution rates over the long-term.	<p>Anticipate long-term returns on a prudent basis to reduce risk of under-performing.</p> <p>Use specialist advice to invest and diversify assets across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three-year valuations for all employers.</p> <p>Roll forward whole Fund liabilities between valuations.</p>
Inappropriate long-term investment strategy.	<p>Consider overall investment strategy options as part of the funding strategy. Use asset liability modelling to measure outcomes and choose the option that provides the best balance.</p> <p>Operate various strategies to meet the needs of a diverse employer group.</p>
Active investment manager under-performs relative to benchmark.	Use quarterly investment monitoring to analyse market performance and active managers, relative to index benchmark.
Pay and price inflation is significantly more than anticipated.	<p>Focus valuation on real returns on assets, net of price and pay increases.</p> <p>Use inter-valuation monitoring to give early warning.</p> <p>Invest in bonds.</p> <p>Employers to be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Increased employer's contribution rate affects service delivery and admission/scheduled bodies.	Agree an explicit stabilisation mechanism, with other measures to limit sudden increases in contributions.

Risk**Control**

Orphaned employers create added Fund costs.

Seek a cessation debt (or security/guarantor).
Spread added costs among employers.

C3 Demographic risks**Risk****Control**

Pensioners live longer, increasing Fund costs.

Set mortality assumptions with allowances for future increases in life expectancy.

Use the Fund actuary's experience and access to over 50 LGPS funds to identify changes in life expectancy that might affect the longevity assumptions early.

As the Fund matures, the proportion of actively contributing employees declines relative to retired employees.

Monitor at each valuation, consider seeking monetary amounts rather than % of pay.

Consider alternative investment strategies.

Deteriorating patterns of early retirements

Charge employers the extra cost of non ill-health retirements following each individual decision.

Monitor employer ill-health retirement experience, with optional insurance.

Reductions in payroll cause insufficient deficit recovery payments.

Buy-out employers in the stabilisation mechanism to permit contribution increases.

Review contributions between valuations. This may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks**Risk****Control**

Changes to national pension requirements or HMRC rules.

Consider all Government consultation papers and comment where appropriate.

Monitor progress on the McCloud court case and consider an interim valuation or other action once more information is known.

Build preferred solutions into valuations as required.

Time, cost or reputational risks associated with any DLUHC intervention triggered by the Section 13 analysis

Take advice from the actuary and consider the proposed valuation approach, relative to anticipated Section 13 analysis.

Changes to employer participation in LGPS funds leads to impacts on funding or investment strategies.

Consider all Government consultation papers and comment where appropriate.

Take advice from the Fund actuary and amend strategy.

C5 Governance risks

Risk

Control

The administering authority is not aware of employer membership changes, for example a large fall in employee members, large number of retirements, or is not advised that an employer is closed to new entrants.

The administering authority develops a close relationship with employing bodies and communicates required standards.

The actuary may revise the rates and adjustments certificate to increase an employer's contributions between valuations

Deficit contributions may be expressed as monetary amounts.

Actuarial or investment advice is not sought, heeded, or proves to be insufficient in some way

The administering authority maintains close contact with its advisers.

Advice is delivered through formal meetings and recorded appropriately.

Actuarial advice is subject to professional requirements like peer review.

The administering authority fails to commission the actuary to carry out a termination valuation for an admission body leaving the Fund.

CABs' memberships are monitored and steps are taken if active membership decreases.

An employer ceases to exist with insufficient funding or bonds.

It's normally too late to manage this risk if left to the time of departure. This risk is mitigated by:

Seeking a funding guarantee from another scheme employer, or external body.

Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.

Vetting prospective employers before admission.

Requiring a bond to protect the Fund, where permitted.

Requiring a guarantor for new CABs.

Regularly reviewing bond or guarantor arrangements.

Reviewing contributions well ahead of cessation.

Risk

An employer ceases to exist, so an exit credit is payable.

Control

The administering authority regularly monitors admission bodies coming up to cessation.

The administering authority invests in liquid assets so that exit credits can be paid.

C6 Climate risk and TCFD reporting

The Fund has considered climate-related risks when setting the funding strategy.

This climate scenario stress testing was carried out as part of the contribution modelling exercise for the local authority employers at the 2022 valuation. The modelling results under the stress tests were slightly worse than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The same stress tests were not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the local authority employers make up the vast majority of the fund's assets and liabilities, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

The Fund's Responsible Investment beliefs are included in its Investment Strategy Statement.

Appendix D – Actuarial assumptions

The Fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the Funding Strategy Statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the Fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The Fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the Fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2022

		Annualised total returns										
		Cash	Index Linked Gilts (medium)	UK Equity	Private Equity	Global Equity	Proper ty	Emergin g Markets Equity	Unlisted infrastru cture equity	Inflation expectatio n (CPI)	17 year real yield (CPI)	17 year yield
10 Years	16 th %ile	0.8%	-1.9%	-0.4%	-1.2%	-0.7%	-0.6%	-2.5%	0.7%	1.6%	-1.7%	1.1%
	50 th %ile	1.8%	0.2%	5.7%	9.4%	5.6%	4.4%	5.8%	5.9%	3.3%	-0.5%	2.5%
	84 th %ile	2.9%	2.4%	11.6%	20.1%	11.7%	9.5%	14.4%	11.2%	4.9%	0.7%	4.3%
20 Years	16 th %ile	1.0%	-1.5%	1.7%	2.4%	1.5%	1.4%	0.1%	2.6%	1.2%	-0.7%	1.3%
	50 th %ile	2.4%	0.1%	6.2%	10.0%	6.1%	5.0%	6.3%	6.5%	2.7%	1.1%	3.2%
	84 th %ile	4.0%	1.9%	10.6%	17.6%	10.8%	8.9%	12.8%	10.6%	4.3%	2.7%	5.7%
40 Years	16 th %ile	1.2%	-0.3%	3.2%	4.7%	3.1%	2.6%	2.1%	3.9%	0.9%	-0.6%	1.1%
	50 th %ile	2.9%	1.2%	6.7%	10.3%	6.5%	5.5%	6.8%	7.0%	2.2%	1.3%	3.3%
	84 th %ile	4.9%	3.1%	10.2%	16.1%	10.2%	8.8%	11.7%	10.3%	3.7%	3.2%	6.1%
Volatility (5 yr)		2%	7%	18%	30%	19%	15%	26%	15%	3%		

D3 What financial assumptions were used?

Future investment returns and discount rate

The Fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers	1.9%
Low-risk exit basis	See Appendix H – Cessation Policy for circumstances where this may apply to a Fund employer	0%

Discount rate (for funding level calculation as at 31 March 2022 only)

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 3.7% pa applies. This is based on a prudent estimate of investment returns, specifically, that there is an 80% likelihood that the Fund's assets will achieve future investment returns of 3.7% pa over the 20 years following the 2022 valuation date.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Prices Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% p.a. on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to 1.0% above CPI p.a. plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% p.a. applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	55% of maximum tax-free cash
50:50 option	0.7% of members will choose the 50:50 option.

Males

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
			FT &PT	FT	PT	FT	PT	FT
20	105	0.17	485.17	813.01	0.00	0.00	0.00	0.00
25	117	0.17	320.47	537.03	0.00	0.00	0.00	0.00
30	131	0.20	227.38	380.97	0.00	0.00	0.00	0.00
35	144	0.24	177.66	297.63	0.10	0.07	0.02	0.01
40	150	0.41	143.04	239.55	0.16	0.12	0.03	0.02
45	157	0.68	134.35	224.96	0.35	0.27	0.07	0.05
50	162	1.09	110.75	185.23	0.90	0.68	0.23	0.17
55	162	1.70	87.21	145.94	3.54	2.65	0.51	0.38
60	162	3.06	77.73	130.02	6.23	4.67	0.44	0.33

Females

Age	Salary scale	Incidence per 1000 active members per year						
		Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
			FT &PT	FT	PT	FT	PT	FT
20	105	0.10	458.15	467.37	0.00	0.00	0.00	0.00
25	117	0.10	308.28	314.44	0.10	0.07	0.02	0.01
30	131	0.14	258.41	263.54	0.13	0.10	0.03	0.02
35	144	0.24	223.04	227.38	0.26	0.19	0.05	0.04
40	150	0.38	185.63	189.18	0.39	0.29	0.08	0.06
45	157	0.62	173.23	176.51	0.52	0.39	0.10	0.08
50	162	0.90	146.05	148.65	0.97	0.73	0.24	0.18
55	162	1.19	108.97	111.03	3.59	2.69	0.52	0.39
60	162	1.52	87.82	89.37	5.71	4.28	0.54	0.40

D5 What assumptions apply in a cessation valuation following an employer's exit from the Fund?**Low-risk exit basis**

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

1. The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin. This was 1.7% pa on 31 March 2022.
2. The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Appendix E – Contribution reviews

Under the LGPS Regulations the Fund may amend contribution rates between valuations where there has been “significant change” to the liabilities or covenant of an employer. The Fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an 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 [Regulation 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 due to events such as bulk transfers, significant reductions 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). The employer would be expected to provide evidence to back up its request for a review e.g. report and accounts, financial forecasts and budgets. The administering authority will endeavour to complete any review within 3 months of request subject to receipt of satisfactory evidence, and will monitor any change in an employer’s circumstances on a regular basis following any change in contribution rate and may require further information from the employer to support this monitoring process.

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 a change in contributions outside a formal valuation.

It should be noted that any review may require increased contributions. The administering authority may need to consult other fund employers e.g. where they act as guarantor, as part of a review.

Appendix F – Ill-health risk management

The Fund recognises ill health early retirement costs can have a significant impact on an employer's funding and contribution rate, which could ultimately jeopardise their continued operation.

Each employer may elect to use external insurance which has been made available by the Fund. The Fund communicates this external insurance option regularly to all employers including new employers.

If an employer provides satisfactory evidence to the administering authority of putting in place an external insurance policy covering ill health early retirement strains, then:

- the employer's contribution rate to the Fund each year is reduced by the amount of that year's insurance premium rate, and
- there is no need for monitoring of ill health allowances versus experience.

When an active member retires on ill health early retirement the claim amount will be paid directly from the insurer to the insured employer. This amount should then be paid to the Fund to allow the employer's asset share to be credited.

The employer must keep the administering authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

Appendix G – Pass-through and risk sharing

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. If the contractor does not take on the risk (the traditional approach), then there are different approaches that may be adopted.

- i) **Fixed contribution rate agreed** - under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and on cessation does not pay any deficit or receive an exit credit. In other words, the pension risks “pass-through” to the letting employer.
- ii) **Pooling** - under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

The Administering Authority’s preferred approach is that a new TAB will participate in the Fund via a fixed contribution rate arrangement with the letting employer*. The certified employer contribution rate will be set equal to the fixed contribution rate agreed between the letting authority and the contractor. The fixed rate that will be paid is at the discretion of the letting authority and contractor subject to a minimum of the letting authority’s primary rate on the contract start date. Upon cessation the contractor’s assets and liabilities will transfer back to the letting authority with no crystallisation of any deficit or surplus.

The Administering Authority is, however, willing to administer either of the above two options – it will be important that the approach is clearly documented in the Admission Agreement and/or any transfer agreement.

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.

* Catering and cleaning contracts are often outsourced by academies. The Fund expects academies to set up such contracts as pass-through arrangements which are closed to new members, and to confirm that the outsourcing complies with the requirements set out in the [‘DfE Academy Trust LGPS Guarantee policy’](#). This confirmation should be sent to the Fund ahead of the academy entering into an agreement with the contractor. If confirmation is not provided, the Fund may ask for security to be provided as a condition of admission.

On cessation, the Administering Authority will instruct the Fund Actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. The administering authority reserves the right to put in place a Deferred Debt Agreement (as described in [Regulation 64 \(7A\)](#)). This is covered in further detail below.

Where there is a debt, 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 full as a single lump sum. However, subject to actuarial, covenant, legal and any other advice as necessary, 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. Repayments may be subject to an interest charge and any spreading would always be discussed in advance and agreed with the employer. Such agreement would only be permitted at the Fund's discretion, where the employer can demonstrate that payment of the debt in a single immediate lump sum could be shown to be materially detrimental to its 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, 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.

Where there is a surplus, the administering authority will determine the amount of exit credit to be paid in accordance with the Regulations. In making this determination, the administering authority will consider the extent of any surplus, the proportion of surplus arising as a result of the admission's body's employer contributions, any representations (such as risk sharing agreements - please see Appendix G) and any employer providing a guarantee to the admission body.

The LGPS benefit structure from 1 April 2014 is currently under review following the McCloud judgement. The Fund is considering how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to the calculations involved in cessation valuations, however an adjustment has been made to each employer's liabilities at the 31 March 2022 valuation and as such, any cessation valuations carried out after this date will have an allowance built in.

For non-TABs 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:

- 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 "low risk cessation 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 as described in Appendix D;

- 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 (b), 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 a bond indemnity or guarantee.

In the rare event that the Fund is not able to recover the required payment in full and there is no guarantor, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. If material, this will require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund. If not, it will 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 its 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 requirements of Scheme employers and pay the Secondary rate of contributions as determined by the Fund actuary until the termination of the DDA. Any such agreement would always be discussed in advance with the admission body, whether at its request or not. The Fund will endeavour to accommodate any agreement within 3 months of receipt of all relevant evidence from the employer as outlined below.

The administering authority will consider DDA's in the following circumstances:

- The admission body requests the Fund to consider a DDA;
- The admission body is expected to have a deficit when the cessation valuation is 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. Evidence may be required from the admission body to back this up e.g. report and accounts, financial forecasts and budgets.

The administering authority will normally require:

- Security to be put in place covering the admission body's deficit on its cessation basis;
- Regular monitoring of the contribution requirements and security requirements;
- All costs of the arrangement to be met by the admission body, such as the cost of actuarial or legal advice to the Fund, ongoing monitoring of the arrangement and correspondence on any ongoing contribution and security requirements. Estimates of these would be notified to the admission body.

A DDA 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 DDA 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 DDA 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. the admission body is now largely fully funded on its cessation basis); 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 its outstanding cessation debt on its cessation basis).

On the termination of a DDA, the admission body will become an exiting employer and a cessation valuation will be completed in line with this FSS.