



Pension Fund

Exit Policy

This documents sets out the approach of Durham County Council (the "Administering Authority") as administering authority of the Durham County Council Pension Fund (the "Fund") to exiting employers from the Fund. This revised policy takes into account changes introduced by the Local Government Pension Scheme (Amendment) Regulations 2020.

1. Where an employer becomes an exiting employer, an exit valuation will be carried out in accordance with Regulation 64 of the Regulations. That valuation will take account of any activity as a consequence of exit regarding any existing contributing members (for example any bulk transfer payments due, and any asset transfer associated with the transfer of active members to another employer in the Fund) and the status of any liabilities that will remain in the Fund.
2. In particular, the Administering Authority will seek to minimise the risk to other employers in the Fund that after exit any deficiency arises on the liabilities of the exiting employer such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally UK Government fixed interest and index linked bonds.
3. The exit valuation will assess the assets held as at the exit date in the Fund in respect of the exiting employer, as compared to the liabilities of the Fund in respect of benefits attributable to the exiting employer's current and former employees. The exit valuation will normally conclude that there is either:
 - 3.1. a deficit, in that the liabilities have a higher value than the assets; or
 - 3.2. a surplus, in that the assets have a higher value than the liabilities.
4. When calculating the liabilities in the Fund in respect of the exiting employer, an increase will be applied to these liabilities to allow for the potential increase in benefits due to the cost management process and the McCloud1 judgement, as advised by the Fund Actuary.
5. Where the exit valuation shows a deficit, an exit payment will usually be required from the exiting employer. The administering authority, at its sole discretion, may allow phased payments.
6. The Administering Authority may, with the consent of the scheme employer in question, allow another employer in the fund to subsume the assets and liabilities of the exiting employer. This may include the Administering Authority agreeing to the other scheme employer accepting ongoing liability for any deficit in substitution of the requirement for an exit payment from the exiting employer.
7. For exits on or after 14 May 2018, where the exit valuation shows that there is a surplus in the Fund in respect of the exiting employer, the Administering Authority will follow the process set out in paragraphs 8 to 14 below.
8. As soon as is practicable after the production of the applicable exit valuation, the Administering Authority will notify the exiting employer and, where the exiting employer has been admitted to the fund as an admission body:
 - 8.1. any party that has given a guarantee under paragraph 8 of Part 3 to Schedule 2 to the Regulations;
 - 8.2. (in respect of admissions under paragraph (1)(d) of Part 3 of Schedule 2 to the Regulations) any scheme employer connection with the exercise of whose function the exiting employer was providing a service or assets; and

- 8.3. any employer who has provided a subsumption guarantee in respect of the exiting employer.

of the fact that the exit valuation shows a surplus, that the Administering Authority intends to make a determination of whether this surplus should be passed in whole or in part to the exiting employer, and to request that each party, within 14 days, provides their written representations to the Administering Authority in relation to any factors which, in their view, would influence such a decision and make the payment of a surplus to the exiting employer more or less appropriate.

9. The representations of the parties mentioned in paragraph 8 above may (but need not) detail any risk sharing arrangement agreed between the parties as regards the participation of the exiting employer in the Fund.
10. The Administering Authority will make a determination of the amount of the exit credit (if any) payable to the exiting employer. In reaching this decision the Administering Authority will have regard to the following factors:
 - 10.1. the extent to which there is a surplus;
 - 10.2. the proportion of the excess of assets which has arisen because of the value of the exiting employer's contributions;
 - 10.3. the representations received from the parties under paragraph 8;
 - 10.4. where part or all of the surplus relates to an increase in the value of the assets of the Fund as at exit date due to better-than-expected investment growth or returns, the extent to which that increase in asset value can be regarded as a stable and long-term value increase;
 - 10.5. (where the Administering Authority is aware of the same) whether or not the exiting employer has been exposed to the full financial risk of participation in the Fund and the existence of any risk-sharing arrangements in place with third parties;
 - 10.6. the date on which the admission and/or commercial arrangements between the exiting employer and scheme employer came into effect, and whether therefore the parties had the opportunity to deal with the chance of an exit credit in their contractual arrangements; and
 - 10.7. any other relevant factors.
11. No single factor will be conclusive and the Administering Authority will consider all the circumstances in the round in coming to its decision on the correct level of an exit payment. In order to help the parties in formulating their representations, the Administering Authority sets out below the factors it may consider, and some guidance as to the usual implication of those factors:

Factor	The Administering Authority's view on how this may influence the determination
The extent to which there is a surplus	Will not of itself influence the determination in favour or against the exit credit, but the Administering Authority may decide to truncate the determination process where the surplus is so small as to make the full process administratively disproportionate;
The proportion of the excess of assets which has arisen because of the value of the exiting employer's contributions	In general, the Administering Authority considers that where the surplus exceeds the total employer contributions received over the course of the admission, this would weigh against the payment of the full surplus as an exit credit;
The representations received from the parties	Dependent on their content;
Where part or all of the surplus relates to an increase in the value of the assets of the Fund as at exit date due to better-than-expected investment growth or returns, the extent to which that increase in asset value can be regarded as a stable and long-term value increase;	In general, the Administering Authority considers that where the exit took place at a time when the value of assets held by the Fund were unexpectedly high, and subsequently declined, or appear to the Administering Authority reasonably likely to decline in the short or medium term, then this will weigh against the payment an exit credit (either in full or in part dependent on the circumstances). Where the Authority relies on this factor in making a determination, it will provide the parties with details of why it considers that is the case;
Whether or not the exiting employer has been exposed to the full financial	In general, the Administering Authority considers that where the exiting employer
risk of participation in the Fund and the existence of any risk-sharing arrangements in place with third parties	has not been exposed to the usual financial risks associated with admission by reason of its commercial arrangements with third parties (for example the scheme employer), this would weigh against the payment of an an exit credit (either in full or in part dependent on the circumstances of the arrangement in question);
The date on which the admission and/or commercial arrangements between the exiting employer and scheme employer came into effect, and whether therefore the parties had the opportunity to deal with the chance of an exit credit in their contractual arrangements	In general, the Authority considers that where the arrangements pre-date the introduction into the Regulations of the concept of exit credits, this will weigh against the payment of an exit credit (either in full or in part dependent on the circumstances), and where the arrangements post-date the concept of exit credits, this will weigh in favour of the payment of an exit credit (either in full or in part dependent on the circumstances); and
Any other relevant factors.	Dependent on the factor in question.

In making a determination under paragraph 10, the Administering Authority will take such legal and actuarial advice as it considers appropriate.

12. The Administering Authority will notify each of the parties identified in paragraph 8 of the amount of any surplus which it has determined should be returned to the exiting employer, if any (the "**exit credit**").

13. The Administering Authority will, unless otherwise agreed with the exiting employer, pay any exit credit to the exiting employer within 6 months of the later of the exit date and the date when the employer has provided all the necessary information required by the Administering Authority to enable the Fund Actuary to calculate the final assets and liabilities on exit.

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