CRONFA BENSIWN
POWYS
PENSION FUND

Employer Policy

Approved March 2023

Employer Policy

1. Introduction

This document explains the policies and procedures of the Powys County Council Pension Fund ('the Fund') in the treatment of employers including on commencement or admission and participation of employers in the Fund, and the methodology for assessment of an exit payment on exit of employers in the Fund, administered by Powys County Council ('the Administering Authority'). This Policy supplements the general funding policy as set out in the Funding Strategy Statement and should be read in conjunction with that statement.

It has been prepared by the Administering Authority in collaboration with the Fund Actuary, Aon Solutions UK, and is effective from the date of issue of this statement.

It should be noted that this statement is not exhaustive and circumstances specific to individual employers may be taken into consideration where appropriate.

Where the information relates to a particular type of employer, this will be explained. If no type of employer is indicated the information relates to all employers in the Fund.

The Administering Authority's aim is to minimise risk to the Fund by ensuring that the employers participating in the Fund are managed in a way that ensures they are able to adequately fund the liabilities attributable to them and, in particular, to pay any deficit due when exiting the Fund.

The Administering Authority has an obligation to pursue all liabilities owed so that any shortfall from an individual employer does not fall back on other employers.

2. Process for Admission Bodies

An employer who wishes to join the fund may apply to the Administering Authority for admission. If admitted, that employer becomes an Admission Body and specified categories of its employees can participate as members of the Fund.

The Administering Authority is responsible for deciding whether an application from an employer to become an Admission Body within the Fund should be declined or accepted.

2.1 Bond, Indemnity or Guarantee

It is important to minimise the risk that a new Admission Body might create for the Fund and the other employers in the Fund. This risk will be taken into account by the Administering Authority in considering the application for admission, who may put in place conditions on any approval of admission to the Fund to minimise this risk, such as a satisfactory guarantee, indemnity or bond and a satisfactory risk assessment.

An indemnity / bond is a way of insuring against the potential cost of the Admission Body failing by reason of insolvency, winding up or liquidation and hence being unable to meet its obligations to the Fund.

In order to reduce the risk of the liabilities not being funded at the point of exit, the Regulations require that a risk assessment be carried out, taking account of actuarial advice, on the level of risk arising on premature termination on insolvency, winding up or liquidation. This assessment is carried out by the Admission Body to the satisfaction of the Administering Authority. In an outsourcing situation, the risk assessment must also be to the satisfaction of the Scheme Employer (i.e. the employer that the outsourcing is coming from). Usually, the actuarial advice is provided to the Administering Authority by the Fund Actuary and the cost for this is recharged to the Admission Body or, where appropriate, to the Scheme Employer.

Where the level of risk identified by the assessment is such as to require it the admission body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an admission body to enter into an indemnity or bond, the body is required to secure a guarantee in a form satisfactory to the Administering Authority from an organisation who either funds, owns or controls the functions of the Admission Body.

Where the Admission Body has a risk sharing arrangement in place with Powys County Council, the Council policy should be referred to for more detail.

The Administering Authority's approach to indemnities and bonds is as follows:

- In the case of Admission Bodies admitted under paragraph 1(d) and other Admission Bodies with a Guarantor, and so long as the Administering Authority judges the relevant Scheme Employer or Guarantor to be of sufficiently sound covenant, any bond exists purely to protect the relevant

Scheme Employer on default of the admission body. As such, it is entirely the responsibility of the relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of required bond. The Administering Authority will be pleased to supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer, but this should not be construed as advice to the relevant Scheme Employer on this matter.

- In the case of Admission Bodies admitted under paragraph 1(e), or under paragraph 1(d) where the Administering Authority does not judge the Relevant Scheme Employer to be of sufficiently strong covenant, and other Admission Bodies with no Guarantor or where the Administering Authority does not judge the Guarantor to be of sufficiently strong covenant, the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer form a view on what level of bond would be satisfactory. The Administering Authority will also on request supply this to the Admission Body or Guarantor. This should not be construed as advice to the Scheme Employer, Guarantor or Admission Body.

- The Administering Authority notes that levels of required bond cover can fluctuate and will review, or recommends the Scheme Employer reviews, the required cover regularly, ideally annually.

Where the liabilities on exit from the fund cannot be fully met by a guarantor or insurer, the Regulations provide that:

- the Scheme Employer will be liable in an outsourcing situation; and
- in all other cases the liabilities will fall on all the other employing authorities within the Fund.

2.2 Pooling and risk sharing

Powys County Council has agreed a risk sharing approach with a number of employers whereby the employer will pay their primary rate only plus any agreed additional contributions arising from actions taken by the employer. Such employers will be required to sign an agreement with Powys County Council which will set out the contributions to be paid. Where an employer has a risk sharing arrangement in place with Powys County Council, no exit credit or payment will be made, and all assets and liabilities will be subsumed by Powys County Council. The Council policy should be referred to for more detail, and a list of employers that have a risk sharing arrangement is set out in the Appendix of the Funding Strategy Statement.

There are a number of employers who are pooled together for funding purposes. These are listed in the Appendix of the Funding Strategy Statement.

3. Actuarial Calculations

3.1 Funding Target

The Funding Target relates to what is expected to happen to the liabilities in respect of the employees of the employer on exit of that employer.

The Funding Target used for any particular employer will determine the level of assets transferred to the employer in respect of transferring members, and the level of contributions required to be paid by the employer.

The principles used to derive the Funding Target for a particular employer are set out in section 4.2 of the Fund's Funding Strategy Statement ('FSS').

3.2 Initial notional asset transfer

When a new employer starts in the Fund, and/or when members transfer from another employer in the Fund, a notional transfer of assets is needed from the original employer to the new employer.

When a new Admission Body starts in the Fund, they will usually start as fully funded. This means that any past service surplus or deficit for the members who are transferring to the new employer remains with the original employer and does not transfer to the new employer.

Another option for the initial notional asset transfer is to allow for the funding level of the original employer, and therefore to transfer any past service surplus or deficit in respect of the transferring membership to the new employer. This approach would normally apply to new Scheduled Bodies.

Where an employer has a risk sharing arrangement with Powys County Council, no initial asset transfer occurs as Powys County Council retains responsibility for funding the past service pension liabilities in respect of the transferring members.

3.3 Initial employer contribution rate

When a new employer joins the Fund, the Fund Actuary determines the initial employer contribution rate payable from commencement.

The employer contribution rate will be set in accordance with the Funding Strategy Statement, taking into consideration elements such as:

- Any past service or inherited liabilities.
- Whether the new employer is open or closed to new entrants.
- For Admission Bodies, whether the admission agreement is fixed term or not, and the period of any fixed term contract period.
- Other relevant circumstances.

3.4 Varying the employer contribution rate

The Regulations require a triennial Actuarial Valuation of the fund. As part of each Actuarial Valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers and may be increased or reduced.

The Administering Authority also monitors the position and may amend contributions between valuations as permitted by Regulations 64(4) and 64A.

The Administering Authority's overriding objective at all times in relation to employers is that, where possible, there is clarity over the funding target for that body, and that contribution rates payable are appropriate for that funding target. However, this is not always possible as (for example) for admission bodies any date of exit may be unknown (for example, participation may be assumed at present to be indefinite), and also because market conditions change daily.

The Administering Authority will consider reviewing employer contributions between formal valuations in the following circumstances:
- it appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise 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 the Scheme employer or employers to meet the obligations of employers in the Scheme;
- it appears to the administering authority that it is likely that the Scheme employer will become an exiting employer; or
- Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

For the avoidance of doubt, the Administering Authority will not consider a review of contributions under Regulation 64A purely on the grounds of a change in market conditions affecting the value of assets and/or liabilities.

Determining whether a review is appropriate

In determining whether or not a review should take place under 64A, the Administering Authority will consider the following factors (noting that this is not an exhaustive list):
- the circumstances leading to the change in liabilities arising or likely to arise, for example whether this is the result of a decision by the employer, such as a significant outsourcing or transfer of staff, closure to new entrants, material redundancies or significant pay awards, or other factors such as ill-health retirements, voluntary withdrawals or the loss of a significant contract;
- the materiality of any change in the employer's membership or liabilities, taking account of the Actuary's view of how this might affect its funding position, primary or secondary contribution rate;
- whether, having taken advice from the Actuary, the Administering Authority believes a change in ongoing funding target or deficit recovery period would be justified, e.g. on provision or removal of any security, subsumption commitment, bond, guarantee, risk-sharing arrangement, or other form of indemnity in relation to the employer's liabilities in the Fund;

- the materiality of any change in the employer's financial strength or longer-term financial outlook, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser to the Fund;
- the general level of engagement from the employer and its adherence to its legal obligations as set out in the Pension Fund Administration Strategy Statement and elsewhere, including the nature and frequency of any breaches such as failure to pay contributions on time and data quality issues due to failure to provide new starter or leaver forms.

For an admission body where contributions may be reviewed under Regulation 64(4), the following considerations will apply:

- Whether a review has been requested by the relevant guarantor or subsuming employer, or for transferee and Schedule 2 Part 3 (1)(d) admission bodies the relevant scheme employer
- A material change in circumstances, such as the date of exit becoming known, material membership movements or material financial information coming to light may cause the Administering Authority to informally review the situation and subsequently formally request an interim valuation
- For an employer whose participation is due to cease within the next 3 years, the Administering Authority will monitor developments and may see fit to request an interim valuation at any time.

Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any employer at any time if Regulation 64(4) or 64A applies.

<u>Impact on other employers</u>

In determining whether or not a review should take place, the Administering Authority will generally focus on the materiality of any potential changes in the context of the employer concerned; its financial position and current contribution levels. As a matter of principle, the Administering Authority does not consider that a review is not justified just because an employer is small in the context of the Fund as a whole, noting that failure to act could make discussions at the next formal valuation more difficult and compound the risk to the Fund. However, in determining the extent and speed of any changes to the employer's contributions the Administering Authority will consider the effect on the overall funding position of the Fund, i.e. other Fund employers.

Where contributions are being reviewed for an employer with links to another Fund employer, particularly where this is a formal organisational or contractual link, e.g. there is a tripartite admission agreement, an ownership relationship or a formal guarantee, subsumption commitment or risk sharing arrangement is in place, the Administering Authority will consider the potential risk/impact of the contribution review on those other employer(s), taking advice from the Fund Actuary as required.

<u>Employer involvement</u>

It is expected that in most cases the employer will be aware of the proposed review of their contributions since this will be triggered by an employer's action and employers should be aware of the need to engage with the Fund in relation to any activity which could materially affect their liabilities or ability to meet those liabilities.

In other cases information will be required from the employer, e.g. in relation to its financial position and business plans which could be the catalyst for informing the employer that a review is being proposed. In all cases the Administering Authority will advise the employer that a review is being carried out and share the results of the review and any risk or covenant assessment as appropriate. It should be noted that the fact of a review being carried out does not automatically mean that contributions will be amended (up or down) since that will depend upon the materiality of the changes and other factors such as the outcome of discussions with the employer and any related/linked employer in the Fund and the proximity to the next formal valuation.
Where, following representations from the employer, the Administering Authority is considering not increasing the employer's contributions following a review, despite there being good reason to do so from a funding and actuarial perspective, e.g. if it would precipitate the failure of the employer or otherwise seriously impair the employer's ability to deliver its organisational objectives or it is expected that the employer's financial position will improve significantly in the near-term, the Administering Authority will consult with any related/linked employers and, where appropriate, Powys County Council as the largest employer in the Fund with a view to seeking their agreement to this approach.

The Administering Authority will consult with the employer on the timing of any contribution changes and there will be a minimum of 4 weeks' notice given of any contribution increases. In determining whether, and when, any contribution changes are to take effect the Administering Authority will also take into account the timing of contribution changes flowing from the next formal valuation. As a result, contribution reviews are unlikely to be carried out during the 12 month period from the valuation date although if there were any material changes to the expected amount of liabilities arising or the ability of the employer to meet those liabilities during that period, this should be taken into account when finalising the Rates and Adjustments Certificate flowing from the valuation.

<u>Appeals process</u>

Appeals should be directed to the Pensions Administration Manager in the first instance, providing evidence supporting the following:

i) A deviation from the published policy or process by the Administering Authority

And/or

ii) Any further information (or interpretation of information provided) which could influence the outcome, noting new evidence to be considered at the discretion of the Administering Authority).

<u>Requesting a review</u>

Before requesting a review, employers should consider the regulatory requirements and the Fund's policy as set out above and satisfy themselves that there has been a relevant change in the expected amount of liabilities or their ability to meet those liabilities. The employer should contact The Pensions Administration Manager and complete the necessary information requirements for submission to the Administering Authority in support of their application.

The Administering Authority will consider the employer's request and may ask for further information or supporting documentation/evidence as required. If the Administering Authority, having taken actuarial advice as required, is of the opinion that a review is justified, it will advise the employer and provide an indicative cost. Employers should be aware that all advisory fees incurred by the Fund associated with a contribution review request, whether or not this results in contributions being amended, will be recharged to the employer.

4. Exit from the Fund

An employer can cease participation in the following circumstances:

- An employer ceases to be a Scheme employer (including ceasing to be an Admission Body participating in the Fund), or has no active members contributing to the Fund and does not enter into a Deferred Debt Agreement;
- A Deferred Debt Agreement ends (where an employer has agreed to enter a Deferred Debt Agreement).

4.1 Exit valuations

Where participation in the Fund ceases, an exit valuation will be carried out in accordance with Regulation 64. That valuation will take account of any activity as a consequence of cessation of participation regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund. When employees do not transfer to another employer they will retain pension rights within the Fund, either as a deferred pensioner or immediately taking retirement benefits.

Where an employer has a risk sharing arrangement in place with Powys County Council such that it pays only the future service rate, generally no exit valuation will be carried out, and no exit payment will be required, or exit credit paid.

The assumptions adopted to value the departing employer's liabilities for the exit valuation (including on termination of any Deferred Debt Agreement) will depend upon the circumstances. In particular, the exit valuation will distinguish between residual liabilities which will become:

- 'orphan' liabilities, ie no other individual employer in the Fund will have future responsibility for funding the residual liabilities; and
- liabilities which will be 'subsumed' by other employers, ie another employer takes on responsibility for funding the residual liabilities of the former employer after exit.

For orphan liabilities the Funding Target on exit will anticipate investment in low risk investments such as UK Government bonds. This is to protect the other employers in the Fund, as after exit, there is no recourse to that (former) employer if a shortfall emerges in relation to these liabilities after the exit date.

For subsumed liabilities the exit valuation will be carried out on the ongoing Funding Target appropriate to the subsuming employer, updated for financial conditions at the exit date.

In exceptional circumstances the Funding Target for subsumed liabilities may be varied if deemed appropriate by the Administering Authority, on the advice of the Fund Actuary.

For exits where the calculations are carried out on or after 1 January 2021, allowance will be made for:

- The expected cost of the increase in benefits due to the McCloud judgement.
- Full indexation of GMPs to be paid by the Fund for all of the employer's members whose State Pension Age is on or after 1 April 2016.

In determining the allowance to be made, the Administering Authority will have regard to any relevant guidance prepared by the Scheme Advisory Board or DLUHC, and the advice of the Fund Actuary. It will be kept under review as further information becomes available.

The exiting employer will be expected to make good the funding position disclosed by the exit valuation. In other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of an exit payment being required from the outgoing employer.

However, where agreed between the parties, the deficit (or any exit credit) may be transferred to the subsuming employer or guarantor, in which case it may be possible to simply transfer the former admission body's members and assets to the subsuming body, without needing to crystallise any deficit or pay an exit credit.

If there are liabilities which cannot be recovered from the exiting employer or any bond / indemnity, these will fall to be met by the Fund as a whole (i.e. all other employers) unless there is a successor body within the Fund.

At successive triennial Actuarial Valuations, the Fund Actuary will allocate assets within the Fund equal to the value of the orphan liabilities so that these liabilities are fully funded. This may require a notional reallocation of assets from the ongoing employers in the Fund.

Employers should be aware that advisory and other costs incurred by the Administering Authority in relation to the exit of an employer from the Fund will be recharged to the exiting employer.

4.2 Exit payments

Any deficit would normally be levied on the departing employer as a single capital payment, although the Administering Authority may allow phased payments as permitted under Regulation 64B.

It is envisaged that spreading of exit payments will only be considered at the request of an employer. The Administering Authority will then engage/consult with the employer to consider its application and determine whether or not spreading the exit payment is appropriate and the terms which should apply.

In determining whether or not to permit an exit payment to be spread, the Administering Authority will consider factors including, but not limited to:

- The ability of the employer to make a single capital payment;
- Whether any security is in place, including a charge over assets, bond, guarantee or other indemnity;
- Whether the overall recovery to the Fund is likely to be higher if spreading the exit payment is permitted.

In determining the employer's ability to make a single payment the Administering Authority will seek actuarial, covenant or legal advice as required. Where the Administering Authority considers that the employer is financially able to make a single capital payment it will not normally be appropriate for the exit payment to be spread.

The employer will be required to provide details of its financial position, business plans and financial forecasts and such other information as required by the Administering Authority in order for it to make a decision on whether or not to permit the exit payment to be spread. This information must be provided within 2 months of request.

In determining the appropriate length of time for an exit payment to be spread, the Administering Authority will consider the affordability of the instalments using different spreading periods for the employer. The default spreading period will be 3 years but longer periods of up to 10 years will be considered where the Administering Authority is satisfied that this does not pose undue risk to the Fund in relation to the employer's ability to continue to make payments over the period.

Whilst the Administering Authority's preference would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that a final decision by the employer (and the Administering Authority) on whether this will be financially beneficial/appropriate may not be possible until the employer has exited. Exiting employers will be advised of the exit deficit and the spreading of any payment will only be considered at the request of the employer. Where there is a guarantor or subsuming employer, the guarantor/subsuming employer will also be consulted and any agreement to spread the exit deficit may be conditional on the guarantee continuing in force during the spreading period.

The amount of the instalments due under an exit deficit spreading agreement will generally be calculated as level annual amounts allowing for interest over the spreading period in line with the discount rate used to calculate the exit liabilities. Where the exit amount is significant, monthly payments may be required or the Administering Authority may require a higher initial payment with lower annual payments thereafter to reduce the risk to the Fund. Alternative payment arrangements may be made in exceptional circumstances as long as the Administering Authority is satisfied that they don't materially increase the risk to the Fund.

Where it has been agreed to spread an exit payment the Administering Authority will advise the employer in writing of the arrangement, including the spreading period; the annual payments due; interest rates applicable; other costs payable* and the responsibilities of the employer during the spreading period. Where a request to spread an exit payment has been denied the Administering Authority will advise the employer in writing and provide a brief explanation of the rationale for the decision.

*Employers will be asked to pay all advisory costs associated with the spreading agreement as well as calculation of the exit deficit (these costs will not be spread).

The Administering Authority will generally review spreading agreements as part of its preparation for each triennial valuation and will take actuarial, covenant, legal and other advice as considered necessary. In addition, employers will be expected to engage with the Administering Authority during the spreading period and adhere to the notifiable events framework as set out in the Pensions Administration Strategy. If the Administering Authority has reason to believe the employer's circumstances have changed such that a review of the spreading period (and hence the payment amounts) is appropriate, it will consult with the employer and a revised payment schedule may be implemented. Whilst this review may also consider the frequency of payments, it should be noted that it is not envisaged that any review will consider changes to the original exit amount nor interest rate applicable. An employer will be able to discharge its obligations under the spreading arrangement by paying off all future instalments at its discretion. The Administering Authority will seek actuarial advice in relation to whether or not there should be a discount for early payment given interest will have been added in line with the discount rate used for the exit valuation.

4.3 Exit credits

Where an exit occurs after 14 May 2018, and the exit valuation discloses a surplus in the Fund in respect of the exiting employer, an exit credit may be due to the employer. The Administering Authority will, unless otherwise agreed with the employer, pay any exit credit to the employer within 6 months of the exit date. Where the employer has not provided all the necessary information required by the Administering Authority to enable the Fund Actuary to carry out the exit valuation within 2 months of the exit date, the employer will be deemed to have agreed that the 6 month period should run from the date all the necessary data has been provided.

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, any guarantor, Scheme Employer or subsuming employer where applicable, 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
- To request that each party, within 28 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.

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

- The extent to which there is an excess of assets in the Fund relating to that employer over the liabilities (i.e. a surplus);
- The proportion of the surplus which has arisen because of the value of the employer's contributions;
- Any representations made by:
  - the exiting employer,
  - where the exiting employer participates in the Scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the 2013 Regulations,
  - any employer otherwise acting as guarantor or subsuming employer to the exiting employer,

and any further information or documentation requested by the Administering Authority in support of any claim made in such representations; and
- Any other relevant factors, which include any legal, actuarial or other costs incurred by the Administering Authority in relation to the exit, the circumstances in which any subsumption commitment was granted, and any risk sharing arrangements in place.

While the Administering Authority reserves its discretion to come to a different determination where circumstances indicate that this might be reasonable, it expects to apply the following principles in making a determination:
- the Administering Authority will not generally pay an exit credit larger than the total of the exiting employer's contributions paid into the Fund, less any costs incurred by the Administering Authority in relation to the exit;
- where an employer has a risk sharing in place with Powys County Council such that it pays only the future service rate, no exit credit or payment will be made, and all assets and liabilities will be subsumed by Powys County Council;
- in cases where the employer has not been exposed to a material extent to the usual financial risks associated with participation in the Fund, for example due to an alternative form of risk sharing with any employer in the Fund, then the Administering Authority will allow for this in making their determination.

4.4 Suspension notices

Regulation 64(2A) permits the suspension of an employer's liability to make an exit payment for up to 3 years where the Administering Authority believes that the employer is likely to have one or more active members contributing to the Fund within the period specified in the suspension notice. The Administering Authority considers that it is appropriate to exercise that discretion in relation to Town and Community Councils where there is a reasonable expectation that a member will join in the near future (e.g. before the next triennial actuarial valuation). In that case, the Fund will advise the employer of the exit amount calculated by the Actuary and serve a written suspension notice on the employer. Whilst under such a suspension notice, the employer must continue to pay any deficit payments certified to the Fund as if it were an ongoing employer and the actuary will recalculate any deficit and contributions due at the next actuarial valuation. If there are no new members by the time the suspension notice expires the Fund Actuary will carry out an exit valuation as at the date the suspension notice expires.

4.5 Deferred Debt Agreements (DDAs)

Regulation 64(7A) permits the Administering Authority to enter into a written agreement with an exiting Scheme employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate (a 'Deferred Debt Agreement').

The Administering Authority's policy in relation to the spreading of exit payments under Regulation 64(7A) is set out below.

In determining whether or not to enter into a DDA with an employer the Administering Authority will take into account the following factors, including but not limited to:

- The materiality of the employer and any exit deficit in terms of the Fund as a whole;
- The risk to the Fund of entering into a DDA, in terms of the likelihood of the employer failing before the DDA has ended, based on information supplied by the employer and generally supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser;
- The rationale for the employer requesting a DDA, particularly if the Administering Authority believes it would be able to make an immediate payment to cover the exit deficit;
- Whether an up front payment will be made towards the deficit, and/or any security is, or can be put, in place, including a charge over assets, bond, guarantee or other indemnity, to reduce the risk to other employers.

Where it is expected that the employer's covenant may materially weaken over time the Administering Authority is very unlikely to consider entering into a DDA with that employer. Further, where an employer can demonstrably meet the exit payment in a single instalment, the Administering Authority would be unlikely to enter into a DDA unless it was clear that this wouldn't increase risk to the Fund, e.g. if the employer was fully taxpayer-backed and sufficient assurance was in place that all contributions due, including any residual deficit at the end of the DDA, would be met in full.

It is envisaged that DDAs will only be entered into at the request of an employer. The Administering Authority will then engage/consult with the employer to consider the application and determine whether or not a DDA is appropriate and the terms which should apply. As part of its application for a DDA, the Administering Authority will require information from the employer to enable the Administering Authority to take a view on the employer's strength of covenant. Information will also be required on an ongoing basis to enable the employer's financial strength/covenant to be monitored.

The matters which the Administering Authority will reflect in the DDA include:

- An undertaking by the employer to meet all requirements on Scheme employers, including payment of the secondary rate of contributions, but excluding the requirement to pay the primary rate of contributions;
- A provision for the DDA to remain in force for a specified period, which may be varied by agreement of the Administering Authority and the deferred employer;
- A provision that the DDA will terminate on the first date on which one of the following events occurs-
  - the deferred employer enrols new active members;
  - the period specified, or as varied, elapses;
  - the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
  - the Administering Authority serves a notice on the deferred employer that it is reasonably satisfied that the deferred employer'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; or

- the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation date.
  - The responsibilities of the deferred employer;
  - Conditions triggering the implementation of a recovery plan, i.e. when the secondary contributions payable and/or the period of the DDA may be varied;
  - the circumstances triggering a cessation of the arrangement leading to an exit payment (or credit) becoming payable, in addition to those set out in Regulation 64 (7E) and above.

The Administering Authority will monitor the funding position and risk/covenant associated with deferred employers on a regular basis. This will be at least triennially and most likely annually, but the frequency will depend on factors such as the size of the employer and any deficit and the materiality of movements in market conditions or the employer's membership.

The circumstances in which the Administering Authority may consider seeking to agree a variation to the length of the agreement under regulation 64(7D) include:

- Where the exit deficit has reduced (increased) such that it is reasonable to reduce (extend) the length of the recovery period and associated period of the DDA assuming that, in the case of the latter, this does not materially increase the risk to the other employers/Fund;
- Where the deferred employer's business plans, staffing levels, finances or projected finances have changed significantly, but, in the case of a deterioration, the Administering Authority, having taken legal, actuarial, covenant or other advice as appropriate, does not consider that there is sufficient evidence that deferred employer’s ability to meet the contributions payable under the DDA has weakened materially, or is likely to weaken materially in the next 12 months; and
- Where the level of security available to the Fund has changed in relation to the DDA, as determined by the Administering Authority, taking legal, actuarial or other advice as appropriate.

At each triennial valuation, or more frequently as required, the Administering Authority will carry out an analysis of the financial risk or covenant of the deferred employer, considering actuarial, covenant, legal and other advice as necessary. Where supported by the analysis and considered necessary to protect the interests of all employers, the Administering Authority will serve notice on the deferred employer that the DDA will terminate on the grounds that it is reasonably satisfied that the deferred employer’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, as set out under regulation 64(7E)(d).

Employers should be aware that all advisory fees incurred by the Fund associated with consideration of a DDA for an exiting employer, whether or not this results in a DDA being entered into, will be recharged to the employer. This will include actuarial, legal, covenant and other advice and the costs of monitoring the arrangement as well as the initial set up. Estimated costs can be provided on request. All fees must be paid up front and cannot be added to any secondary contributions payable under the DDA.

It is expected that employers will make a request to consider a DDA before they would otherwise have exited the Fund under Regulation 64(1) and that a DDA should be entered into within 3 months of that date. The employer should continue to make secondary contributions at the prevailing rate whilst the DDA is being considered unless the Administering Authority, having taken actuarial and other advice as appropriate, determines that increased contributions should be payable. In exceptional circumstances, e.g. where there has been a justifiable delay due to circumstances outside of the employer's control, and at the sole discretion of the Administering Authority, a DDA may be entered into more than 3 months after the exit date.

Deferred employers will be expected to engage with the Administering Authority during the period of the DDA and adhere to the notifiable events framework as set out in the Pensions Administration Strategy as well as providing financial and other information on a regular basis. This will be necessary to support the effective monitoring of the arrangement and will be a requirement of the DDA.

5. Responsibilities of employers in the Fund

Individual employers will pay for any legal and actuarial costs incurred on their behalf.

The Administering Authority expects all employers in the Fund to take into consideration the effect of their behaviours on the Fund, for example when considering:

- Discretions policies
- Outsourcing decisions
- Salary increases

Employers should have regard to the Fund administration strategy, The Employer Guide and other relevant policies published on the fund website, at all times.

All employers need to inform the Fund of any changes to the organisation that will impact on their participation in the Fund. This includes change of name or constitution or mergers with other organisations or other decision which will or may materially affect the employer's Fund membership.

Employers considering outsourcing any services should have regard to and adhere to the requirements of the Welsh Authorities Staff Transfers (Pensions) Direction 2012. They should also advise the Administering Authority at the earliest opportunity and before any transfer of staff so that the necessary paperwork and calculations can be completed.