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London Pensions Fund Authority
Admission and Cessation Policy

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London Pensions Fund Authority Admission and Cessation Policy

Introduction

1. This is the policy of the London Pensions Fund Authority ("LPFA") as it relates to the admission and cessation of employers in the Fund. LPFA is an Administering Authority of the Local Government Pension Scheme and manages the Fund in accordance with the Local Government Pension Scheme (LGPS) Regulations ("the Regulations"). Administering Authorities are defined in Part 1 of Schedule 3 of the 2013 LGPS Regulations.
2. The purpose of this policy is to outline how LPFA will manage new employer admissions and cessations in the Fund. **This policy supports LPFA's Funding Strategy Statement and is intended to meet the requirements under Regulations 64(7B)(b) and 64B(1) to set out LPFA's policy on deferred debt agreements and spreading exit payments.** This policy should be read in conjunction with LPFA's Funding Strategy Statement.
3. This policy has been prepared by LPFA following advice from the Fund Actuary and following consultation with the Fund's Scheme employers. In drafting this policy document, LPFA has taken into consideration the statutory guidance on preparing and maintaining policies on employer exit payments and deferred debt agreements which was issued by the Ministry of Housing, Communities and Local Government, and the Scheme Advisory Board's guide to employer flexibilities.
4. It should be noted that this policy is not intended to fetter LPFA's discretion and individual employer circumstances will be taken into consideration where appropriate. LPFA will keep this policy under review and make such revisions as are appropriate following a material change in the policy.
5. This policy will be reviewed from time to time and at least every three years.

Employer admissions

6. The Regulations distinguish between different categories of employers that may join the LGPS. These are broadly separated into: 1) "Scheduled" bodies and; 2) "Admission" bodies. These are considered below.

Scheduled bodies

7. Scheduled bodies are defined in Parts 1, 2 and 4 of Schedule 2 of the Regulations. Part 1 Scheduled bodies have a statutory, automatic obligation to offer the LGPS to eligible employees. Part 2 Scheduled bodies can designate (or pass a resolution) to allow eligible employees to join the Scheme.
8. Part 4 Scheduled bodies include a number of bodies for whom the scheme employer is deemed to be the Local Authority. These include (amongst others) voluntary, foundation, and federation schools.
9. When a Scheduled body makes an application to join the LPFA Fund[1], LPFA will consider admitting the employer subject to a satisfactory covenant assessment which may identify a requirement for security from the employer. Whether or not security is required will depend on the outcome of this covenant assessment. Details of the covenant assessment process are set out in LPFA's Employer Risk Management Framework.

Admission bodies

10. Admission bodies are defined in Schedule 2, Part 3 of the Regulations. The Regulations distinguish between three types of Admission bodies: (1) Those specified in Schedule 2, Part 3, 1(a-c) (previously known as community admission bodies); (2) employers specified in Schedule 2, Part 3, 1 (d) (previously known as transferee admission bodies) and; 3) employers specified in Schedule 2, Part 3, 1 (e) (admission bodies who may join by the prior approval of the Secretary of State).
11. For those admission bodies categorised under Schedule 2, Part 3, 1 (a-c and e) of the Regulations, LPFA will consider any employer request to join the Fund. In considering an employer's request for admission, LPFA may require security from a prospective employer to mitigate the potential covenant risk to LPFA. Requests for security will be made on a case-by-case basis.
12. For those employers categorised under Schedule 2, Part 3, 1(d) of the Regulations (formerly transferee admitted bodies), LPFA will admit such bodies to the Fund provided that a Scheme employer acts as guarantor to the admission agreement.
13. Where LPFA has concerns over the financial strength of a Scheme employer that underwrites the liabilities of a Schedule 2, Part 3, 1 (d) employer, then LPFA may request additional security from either the prospective admission body or the Scheme employer as a condition of the admission agreement.
14. For prospective admitted bodies falling under clause 4 (2) (b) of the Regulations, LPFA will consider an application for admission to the Fund if a guarantee can be provided by either the NHS or a Local Authority to underwrite the admission agreement.

1 This scenario can arise when LPFA has discretion over the admittance of a Scheduled body, which could result following an employer merger (such as that seen in the Further Education sector) or when a Scheduled body (that already participates in an LGPS Fund) makes a request to join the LPFA Fund (amongst other types of scenarios).

Outsourcing

15. When a participating LPFA employer outsources a service, the contractor that subsequently provides that service to the employer may need to participate in the LGPS as an Admission body.
16. The legislative structure surrounding the provision of pension protections is complex and it is for individual employers to take legal advice on the relevant legislation.
17. For those employers that enter into a risk sharing arrangement as part of an outsourcing contract, it is LPFA's policy that the terms of the commercial agreement will not automatically be reflected in the terms of the Admission Agreement. Any terms relating to pensions will need to be separately agreed between the relevant parties.

Application for admission

18. For those prospective employers that wish to apply for admission to the Fund, employers should contact the LPFA Employer Management Services team: https://www.lpfa.org.uk/contact-us. The prospective employer should provide LPFA with their organisation's contact details and a brief summary of why the organisation meets the criteria of a Scheduled/Admitted body under the Regulations. LPFA will then engage with the employer to discuss the application for admission.

Costs

19. Admission to LPFA will generate costs, including fees related to the legal, actuarial, and security related agreements. These costs will be recharged to the employer. LPFA may also charge an administration cost to process the employer admission.
20. The employer will be expected to sign a memorandum of understanding confirming their acceptance of the costs involved in becoming an LPFA employer before any work is started.

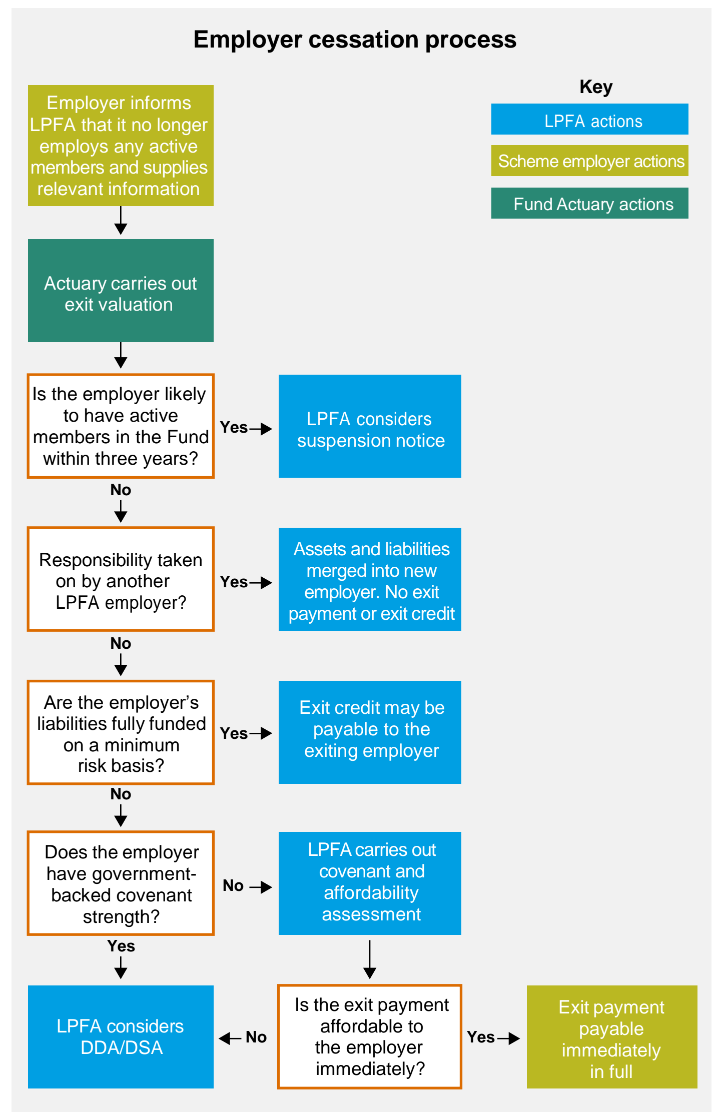
Ongoing monitoring

21. Upon entry to the Fund an employer will be subject to regular ongoing monitoring. This includes:
    1) Review of the employer's funding position;
    2) Review of the level of security implemented (to ensure that it is sufficient for the Fund's purposes);
    3) Review of the employer's covenant (as set out in LPFA's Employer Risk Management Framework);
    4) Review (if applicable) of the admission agreement (to ensure the agreement is up to date and in keeping with the Fund's current admission policy).
22. LPFA reserves the right to terminate an employer's admission agreement in the Fund if an employer breaches any of the conditions of their admission agreement or otherwise acts in a way that violates their obligations under the LGPS Regulations.

Employer cessation

The cessation process

23. Under the Regulations, an employer becomes an exiting employer when it no longer employs active members in the Fund (i.e. none of its employees are building up LGPS benefits within the LPFA Pension Fund). The circumstances specifying how an employer may exit the Fund will normally be outlined in an employer's admission agreement (if they are an admitted body) or (if they are Scheduled) in the relevant section of the Regulations.
24. There are four possible outcomes of the cessation process:
    - Another LPFA employer may take responsibility for the assets and liabilities of the exiting employer
    - An exit credit may be payable to the exiting employer
    - An exit payment may be required from the exiting employer immediately
    - LPFA may enter into a enter into a deferred debt agreement ("DDA") or a debt spreading agreement ("DSA").
25. The process followed by LPFA when processing exiting employers is outlined in the diagram below and considered further in the rest of this document.



Before exit is triggered

26. Where possible, LPFA encourages employers that are approaching exit to engage with the Fund in advance in order to understand the options that may be available. LPFA will also engage directly with employers with fewer than five active members to ensure they are aware of the cessation process. An indicative cessation report can be produced to form the basis of discussions.
27. When an employer no longer has any active members accruing benefits in the LPFA Pension Fund, the employer should contact LPFA's Employer Management Services team immediately: https://www.lpfa.org.uk/contact-us

Actuarial valuation

28. When a Scheme employer becomes an exiting employer under Regulation 64, the Fund Actuary is required to carry out a valuation to determine the employer's funding position. This valuation is carried out in accordance with LPFA's Funding Strategy Statement.

Suspension notice

29. Regulation 64 (2A) permits LPFA to issue a written notice ("a suspension notice") suspend an exiting employer's liability to pay an exit payment for a period of up to 3 years if, in the reasonable opinion of LPFA, the employer is likely to have one or more active members contributing to the fund within the period specified in the suspension notice.
30. LPFA will consider issuing a suspension notice where the employer can demonstrate a clear intention to enroll at least one active member into the Fund within three years. LPFA reserves the right not to issue a suspension notice if it determines that such a notice would not be in the best interests of the remaining employers in the Fund.

Transfer to another employer

31. In some cases, another employer in the Fund (either an existing employer or a newly admitted employer) may take over responsibility for the exiting employer's obligations to the Fund. This arrangement might be captured within the admission agreement or as a separate agreement between the employers and LPFA at the time the exit is triggered.
32. Under this approach, the assets and liabilities attributable to the exiting employer will be transferred to the new employer's notional section of the Fund. Subject to the terms of the admission agreement and the consent of the new employer, no exit payment would normally be required from the exiting employer and no credit would normally be paid to the exiting employer.
33. An example of this arrangement would be when an outsourcing contract comes to an end, with the Scheme employer taking responsibility for the obligations of the outsourced service provider.

Exit credits

34. In accordance with Regulation 64 (2ZAB-2ZC) of the Regulations, LPFA will determine the amount of any exit credit (which may be zero) at the point of an employer's cessation in the Fund and will notify the Scheme employer (and/or any parties to the relevant admission agreement) of its intentions regarding payment of any exit credit.
35. It is the policy of LPFA that the Fund will generally only consider awarding an exit credit where:
    - Assets in the Fund relating to the exiting employer are greater than its liabilities assessed on a minimum risk basis; and
    - No other employer in the Fund (either an existing employer or a newly admitted employer) will be responsible for the liabilities of the exiting employer after it ceases participation in the Fund.
36. LPFA reserves the right to deviate from the above approach where this is justified by the specific circumstances.

    LPFA will aim to pay the exit credit within six months of the exit date, or such longer time as LPFA may agree with the exiting employer. This will be subject to the exiting employer providing the necessary data to LPFA for the exit credit to be calculated.

    Interest will not normally be applied to the exit credit to reflect the period between the cessation date and the payment date. However, LPFA reserves the right to adjust the payment to reflect significant changes in asset values during this period.

Exit payments

37. An exit payment will normally be required where:
    - Assets in the Fund relating to the exiting employer are less than its liabilities assessed on an exit basis; and
    - No other employer in the Fund (either an existing employer or a newly admitted employer) will be responsible for the liabilities of the exiting employer after it ceases participation in the Fund.
38. LPFA will make the exiting employer aware an exit payment is due by providing a revised rates and adjustments certificate in the form of a cessation valuation report produced by the Fund Actuary. Where an exit payment is identified, LPFA will either:
    - Confirm that the exiting employer's covenant strength is derived from government and therefore does not represent any potential credit risk to the Fund, or
    - Otherwise, perform a covenant assessment of the exiting employer, with particular focus on the affordability of the required exit payment. LPFA will seek to engage constructively with the employer to inform this assessment. Details of the assessment process are set out in LPFA's Employer Risk Management Framework.
39. LPFA will ordinarily require that the exit payment is paid immediately and in full if LPFA determines that:
    - The exiting employer does not have government-backed covenant strength; and
    - The exit payment is affordable for the exiting employer to pay immediately.

DDAs and DSAs

40. Regulation 64(7A) enables LPFA to enter into a deferred debt agreement (''DDA'') with the employer. Regulation 64B enables LPFA to enter into a debt spreading agreement (''DSA'').

41. Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. it remains as a Scheme employer but with no active members). Deferred employers remain responsible for paying any existing or future secondary rate of contributions to fund any current or future deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement. This means that under a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with LPFA) as other active employers in the Fund (for example, investment, interest rate, inflation, longevity, and regulatory risks).

42. Under a DSA, the cessation debt is crystallised and spread over a period deemed reasonable by LPFA having regard to the views of the Fund Actuary. LPFA reserves the right to charge interest on the exit payment on a case-by-case basis.

43. Where an exit payment is identified, LPFA will consider entering into a DDA or DSA where either:
    - The exiting employer has government-backed covenant strength (i.e. those employers that are assessed as category A under the Employer Risk Management Framework before taking into account any security provided to LPFA); or
    - The exit payment is not affordable for the exiting employer to pay immediately.

44. Where LPFA considers entering into a DDA or DSA, we will engage with the exiting employer to determine whether a DDA or DSA is more appropriate in the circumstances. The ultimate decision regarding the appropriateness of a DDA or DSA lies solely with LPFA.

45. A DDA might be appropriate if:
    - the employer temporarily has no active members but LPFA expects that more active members might be employed in future. However, if the intention is for active members to join within three years then a suspension notice may be more appropriate; and/or
    - the employer does not present any covenant risk to the Fund (as set out in LPFA's Employer Risk Management Framework); and/or
    - initial affordability of the full exit payment is low but there is a prospect of increased affordability in the future; and/or
    - the exit payment can only be afforded over a long period (and therefore a DDA enables the position to be updated over time in light of changing funding positions).

46. A DSA might be appropriate if:
    - the employer does not intend to employ any more active members and therefore is not expected to resume active employer status; and/or
    - the employer wishes to crystallise its debt to the Fund and therefore not be subject to any of the pension risks that could cause the amounts payable to the Fund to increase (or decrease) in the future; and/or
    - the employer can afford to make the payment over a relatively short period of time but not immediately.

47. If appropriate, and where the exiting employer has government-backed covenant strength, LPFA will consider entering into a DDA on an ongoing funding basis. Under this approach, secondary contributions would be required from the employer only if a deficit emerges on an ongoing funding basis.

48. Where an ongoing DDA is not considered appropriate, for example, where the exiting employer does not have government-backed covenant strength, LPFA may consider entering a DDA or DSA provided that the agreement (or repayment) term is as short as reasonably affordable by the employer. LPFA will also require that security be provided by the employer where available.

49. LPFA reserves the right to refuse a DSA or DDA if such a request is not in the best interests of the Fund or the other participating employers, for example if entering a DSA or DDA increases the risk of a deficit falling to other Fund employers.

50. In considering each request for a DDA or DSA arrangement from an exiting employer LPFA will take actuarial, covenant, legal and other advice as necessary.

51. Employers who may be party to either a DSA or a DDA are encouraged to discuss any potential impact on their accounting treatment with their auditors.

52. Details of the process that LPFA will follow when entering a DDA or DSA are set out in Appendices A and B respectively.

Costs

53. Any costs associated with the cessation process will be the responsibility of the exiting employer. Where LPFA considers a DDA or DSA, the employer will be responsible for costs regardless of whether LPFA agrees to enter into the agreement or not. This may include the cost of actuarial advice, legal advice, and any additional advice required in relation to a covenant assessment or any other specialist adviser costs.

Timescales for assessing a DDA/DSA proposal

54. LPFA will expect to make an initial decision in principle about whether a DDA/DSA is appropriate within five weeks of receiving all the relevant data requested from the employer. This period may vary to reflect specific circumstances. Agreeing the detailed parameters of the DDA/DSA is expected to be an iterative process and timescales will depend on the complexity of the discussion, but we would normally expect these to be concluded within three months.

Appendix A – Deferred Debt Agreements (DDAs)

A1. Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund any deficit.

Information required from the employer

A2. To support LPFA's consideration of whether to enter a DDA, the employer should demonstrate that it is unable to settle its exit payment immediately and provide any relevant information requested by LPFA to support this position.

Examples of the type of information required from the employer include:

- Latest cash flow forecasts (covering next three years, if available)
- Internal management accounts, including P&L and balance sheet
- Business and/or corporate strategy plan
- Company risk register

Assessing the proposal

A3. LPFA will endeavour to decide on whether to enter into a DDA as soon as reasonably possible.

A4. To reach a decision LPFA may consider:

- the size of the exit payment relative to the exiting employer's cashflow
- the size of the exit payment relative to the costs associated with entering into a DDA;
- whether a debt spreading agreement or a suspension notice would be more appropriate (see specific circumstances below);
- any information provided by the exiting employer to support their covenant strength, including any information on a guarantor or other form of security that the employer may be able to put forward to support their covenant;
- the results of any covenant review carried out by LPFA;
- the potential impact on the other employers in the Fund; and
- the opinion of the Fund Actuary.

A5. LPFA is not obliged to enter a DDA. For example, in the following circumstances LPFA might consider a DDA not to be appropriate:

- the exiting employer could reasonably be expected to settle the exit payment in a single amount;
- the exiting employer could reasonably be expected to settle the exit payment by making multiple fixed payments over a short period (in which case a DSA may be considered more appropriate);
- it is known or likely that another active member will come into employment in the three years following the cessation date (in this case a suspension notice might be considered more appropriate than a DDA);
- LPFA is concerned that the employer could not afford the impact of any negative experience which would result in an increase in the required secondary rate of contributions and an increase in the employer's overall deficit (in these cases a DSA would be considered more appropriate as the payments are fixed throughout the term of the agreement).

A6. Once all information has been considered, LPFA will consult with the exiting employer as required under the Regulations. If LPFA does not wish to enter into a DDA we will explain to the exiting employer why this is and discuss any alternatives.

A7. If LPFA considers that a DDA is appropriate, we will notify our legal advisers and Fund Actuary. If LPFA has concerns about the level of risk arising due to the DDA, LPFA might apply conditions to the agreement.

Setting up a DDA

A8. Upon agreeing the principle that an employer can enter into a DDA, the terms of the DDA will subsequently be agreed between LPFA and the exiting employer and will be set out in a formal legal agreement.

A9. LPFA and the exiting employer (with the assistance of the Fund Actuary) will agree an appropriate period for the DDA to remain in force. In setting the agreement period, LPFA will consider:

- the affordability of the resulting payments for the exiting employer
- the anticipated strength of the employer's covenant over the agreement period.

A10. In some cases, the period of the DDA might be subject to review at actuarial valuations.

A11. The Fund Actuary will calculate secondary contributions on an appropriate basis as agreed with LPFA and following consultation with the exiting employer. The secondary contributions will be reviewed at each actuarial valuation and certified in a Rates and Adjustments Certificate until the termination of the agreement. Therefore, payments throughout the agreement are not normally known in advance and may increase or decrease at each valuation to reflect changes in the employer's funding position.

A12. If LPFA determines that the execution of the DDA has been subject to unreasonable delays, then the Fund reserves the right to withdraw the offer of a DDA to the Scheme employer.

Appendix A – Deferred Debt Agreements (DDAs)
Continued

A13. Once the DDA has been executed, the employer will become a deferred employer in the Fund and will have an obligation to pay the secondary contributions as certified by the Fund Actuary. The responsibilities of the deferred employer will be set out in the legal agreement and these will include the requirements to:

- comply with all the requirements on Scheme employers under the Regulations except the requirement to pay a primary rate of contributions but including any additional applicable costs (for example, strain costs as a result of ill health retirements);
- adopt the relevant practices and procedures relating to the operation of the Scheme and the Fund as set out in any employer's guide produced by LPFA;
- comply with all applicable requirements of data protection law relating to the Scheme and with the provisions of any data-sharing protocol produced by LPFA and provided to the deferred employer;
- promptly provide all such information that LPFA may reasonably request in order to administer and manage the agreement; and
- give notice to LPFA, of any actual or proposed change in its status, including take-over, change of control, reconstruction, amalgamation, insolvency, winding up, liquidation or receivership or a material change to its business or constitution.

A14. The deferred employer should consult with its auditors about any impacts the DDA is expected to have on accounting requirements.

Monitoring a DDA

A15. A deferred debt agreement is subject to the ongoing approval of LPFA. LPFA reserves the right to terminate the agreement should they become concerned about a significant weakening in the deferred employer's covenant or a significant change in funding position. LPFA and the employer may also agree to amend the terms of the agreement.

A16. LPFA will monitor a DDA in the following ways:

Change in funding position

A17. LPFA will request regular (on at least an annual basis) updates of the deferred employer's funding position in order to review the progress of the DDA. The costs of the regular reviews and any associated administration costs will fall to the deferred employer as part of the terms for putting in place a DDA.

A18. If the funding position changes significantly then LPFA may engage with the deferred employer to discuss a possible review of the DDA.

Change in employer covenant

A19. LPFA monitors the level of covenant of its Scheme employers on an ongoing basis, carrying out a review at least once a year.

A20. Once an employer enters into a DDA, LPFA will continue to review the employer's covenant on a regular basis and details of this will be agreed for each DDA on an individual basis. If a deferred employer's covenant strength deteriorates, LPFA may issue a notice to review and possibly terminate the agreement.

A21. In addition, if a deferred employer requests an extension to the duration of the DDA, LPFA will consider an updated covenant review, amongst other factors, in assessing the proposal.

A22. As a condition of entering into a DDA, the deferred employer is required to engage with LPFA to assist with the monitoring of the covenant strength, for example, by providing information requested by LPFA in a timely manner.

Timeliness of payments

A23. The agreement will set out whether payments are made on a monthly or annual basis, and LPFA will monitor if contributions are paid on time. Successive late or, in particular, missing payments would contribute towards a notice being issued to the deferred employer to review and possibly terminate the agreement.

Strength of guarantee or security

A24. If a particular funding basis has been used by the Fund Actuary on the understanding that there is a particular security in place (for example another employer in the Fund willing to underwrite the residual deferred and pensioner liabilities when the employer formally exits) then LPFA will check there has been no change to the security at agreed regular intervals and as a minimum at each actuarial valuation. The Fund Actuary may change the funding basis used to set the deferred employer's contributions depending on the strength of the security in place.

Notifiable events from the deferred employer

A25. The deferred employer has a responsibility to make LPFA aware of any changes in their ability to make payments or of a change in circumstance (e.g. a change of the guarantee in place mentioned above). Information should be shared with LPFA at any time throughout the agreement to enable the Fund to consider whether a review of the agreement should be carried out.

Terminating a DDA

A26. As set out in Regulation 64(7E), the DDA terminates on the first of the following events:

- the deferred employer enrolls new active members;
- the duration of the agreement has elapsed;
- the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
- LPFA serves a notice on the deferred employer that it is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially (or is likely to in the next 12 months); or
- a review of the funding position of the deferred employer is carried out at an updated calculation date and the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover what would be due if the deferred employer terminated at the updated calculation date; in other words the review reveals no deficit remains on the relevant calculation basis.

A27. The deferred employer can also choose to terminate the DDA at any point. Notice should be given to LPFA at the earliest opportunity. Termination clauses will be included in the formal DDA legal agreement.

Process of termination

A28. If the termination has been triggered because the deferred employer has enrolled new active members then the deferred employer becomes an active employer in the Fund and an immediate exit payment may not be required; this may instead be incorporated in the revised rates and adjustments certificate that will be provided in respect of the active employer. The employer remains responsible for all previously accrued liabilities and the revised contributions required from the active employer will be calculated in line with LPFA's Funding Strategy Statement.

A29. If the termination is not triggered by enrolling new active members then the deferred employer becomes an exiting employer under Regulation 64(1). LPFA will follow the cessation policy in force at that time when processing the employer's exit from the Fund.

Appendix B – Debt Spreading Agreements (DSAs)

B1. Under a DSA, the cessation debt is crystallised and spread over a period deemed reasonable by LPFA having regard to the views of the Fund Actuary and following discussion with the exiting employer. The payments are fixed and are not reviewed at each actuarial valuation. Interest may be applied on a case-by-case basis.

Information required from the employer

B2. To support LPFA's consideration of whether to enter a DSA, the employer should demonstrate that it is unable to settle its exit payment immediately and provide any relevant information requested by LPFA to support this position.

Examples of the type of information required from the employer include:

- Latest cash flow forecasts (covering next three years, if available)
- Internal management accounts, including P&L and balance sheet
- Business and/or corporate strategy plan
- Company risk register

Assessing the proposal

B3. To reach a decision on whether to allow a DSA, LPFA may consider:

- the size of the exit payment relative to the exiting employer's cashflow;
- the size of the exit payment relative to the costs associated with entering into a DSA;
- whether a deferred debt agreement or suspension notice would be more appropriate;
- any information provided by the employer to support their covenant strength;
- the results of any covenant review carried out by LPFA
- the merit of any guarantees from another source and whether this is deemed sufficient to cover the outstanding payments should the exiting employer fail;
- the potential impact on the other employers in the Fund; and
- the opinion of the Fund Actuary.

B4. LPFA is not obliged to enter a DSA. For example, in the following circumstances LPFA may consider a DSA not to be appropriate:

- the exiting employer could reasonably be expected to settle their exit payment in a single amount;
- there is doubt that the exiting employer can operate as a going concern during the spreading period; or
- the exiting employer cannot afford the required payments over the maximum spreading period or is requesting a spreading period longer than the maximum (see below).

B5. The structure of the DSA is at the discretion of LPFA having taken advice from the Fund Actuary and consulted with the exiting employer. The structure should protect all other employers in the Fund whilst being achievable for the exiting employer. The structure of the DSA will take into consideration:

- the period over which the payments will be spread. This is expected to be no more than four years. For longer periods it may be more appropriate to consider a deferred debt agreement but LPFA reserves the right to set whatever spreading period it deems appropriate provided the Fund is satisfied with the exiting employer's ability to meet the payments over that period. The length of the spreading period will be set as to be as short as possible whilst remaining affordable for the exiting employer;
- the interest rate applicable to the spread payments. In general, this will be set with reference to the discount rate in the exiting employer's cessation valuation report but will be considered on a case-by-case basis;
- the regularity of the payments and when they fall due;
- other costs payable; and
- the responsibilities of the exiting employer during the spreading period (for example, to make payments on time and to notify LPFA of a change in their circumstances that could affect their ability to make payments).

B6. Once all information has been considered, LPFA will consult with the exiting employer as required under the Regulations. If LPFA does not wish to enter into a DSA we will explain to the exiting employer why this is and discuss any alternatives.

B7. If LPFA considers that a DSA is appropriate, we will notify our legal advisers and Fund Actuary. If LPFA has concerns about the level of risk arising due to the DSA, LPFA might apply conditions to the agreement.

Setting up a DSA

B8. LPFA and the exiting employer, with the assistance of the Fund Actuary, will agree the structure of the schedule of payments, considering the exiting employer's affordability and an appropriate period of the spreading.

B9. The schedule of payments will be set out in a revised rates and adjustments certificate prepared by the Fund Actuary.

Monitoring a DSA

B10. Over the term that the exit payment is spread, LPFA will monitor the employer's covenant strength in line with LPFA's Employer Risk Management Framework.

B11. While it is expected the schedule of payments would be fixed for the spreading period, LPFA may alter the structure of the schedule at any time if there is a change in the exiting employer's circumstances or if the exiting employer wanted to pay off the remaining balance. This will be agreed on a case-by-case basis and set out in a revised rates and adjustments certificate.

B12. LPFA will be in regular contact with the exiting employer until their obligations to the Fund are removed when all payments set out in the rates and adjustments certificate are made.

Appendix B – Debt Spreading Agreements (DSAs)
Continued

B13. Examples of factors that will be monitored are set out below. Should any of these raise any concerns with LPFA then the DSA may be reviewed and/or terminated.

Change in employer covenant

B14. LPFA will monitor the ability of the exiting employer to make the set payments by reviewing publicly available information such as credit ratings and/or company accounts as well as keeping in regular contact, at least annually, with the exiting employer to ensure that the payments can be met.

B15. As a condition of entering into a DSA, the exiting employer is required to engage with LPFA to assist with the monitoring of the covenant (for example, by providing information requested by LPFA in a timely manner).

Timeliness of payments

B16. The DSA will set out the frequency and duration of payments, and LPFA will monitor contribution payments. Late payments or, in particular, missing payments could result in further interest charges or the spreading agreement being reviewed and/or terminated.

Strength of guarantee or security

B17. If a particular schedule of payments has been agreed between LPFA and the exiting employer on the understanding that there is a particular security in place (e.g. another employer in the Fund willing to pay the remaining balance or a fixed charge on property that covers the remaining balance) then LPFA will check there has been no change to the level of security on a regular basis.

B18. The frequency of these reviews may reduce as the level of outstanding debt reduces. LPFA, with advice from the Fund Actuary, may change the schedule of payments depending on the strength of the security in place. The exiting employer would be consulted prior to any changes.

Notifiable events from the exiting employer

B19. The exiting employer has a responsibility to make LPFA aware of any changes in their ability to make payments or of a change in circumstance that affects its ability to make payments. Information should be shared with LPFA as soon as possible throughout the agreement to enable LPFA to consider whether a review of the agreement should be carried out.

Terminating a DSA

B20. On paying all the payments set out in the revised rates and adjustments certificate the exiting employer will no longer have any obligations to the Fund.

B21. In the event that LPFA believes that the exiting employer may not be able to make some or all of the remaining payments, LPFA reserves the right to review and/or terminate the DSA to ensure it is appropriate for the Fund and does not adversely impact the other participating employers.

B22. The exiting employer may also request to terminate the DSA early, in which case an immediate payment of the outstanding amounts set out in the contribution schedule should be paid.

Process of termination

B23. In the event of a DSA being amended or terminated LPFA will communicate this to the exiting employer along with reasons for the decision. Before the decision is made LPFA will consult with the exiting employer about their change in circumstances and also take advice from the Fund Actuary.

B24. If the DSA is terminated prematurely LPFA will seek to obtain from the exiting employer as much of the outstanding exit payments as possible or consider alternative arrangements such as a deferred debt agreement.

B25. Once the exit payment has been made in full, the exiting employer has no further obligation to the Fund.