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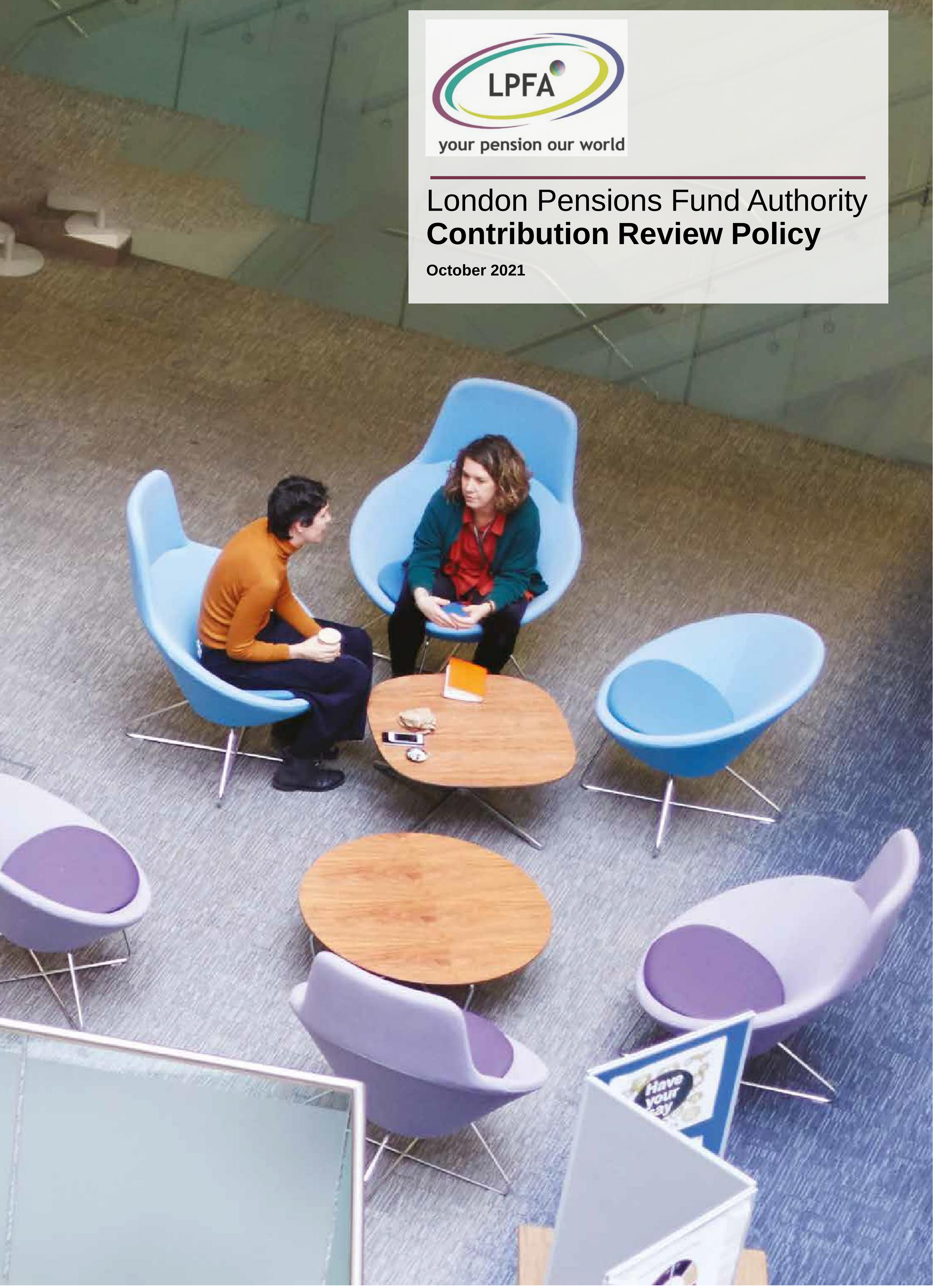
London Pensions Fund Authority
Contribution Review Policy

October 2021



Contents

London Pensions Fund Authority Contribution Review Policy

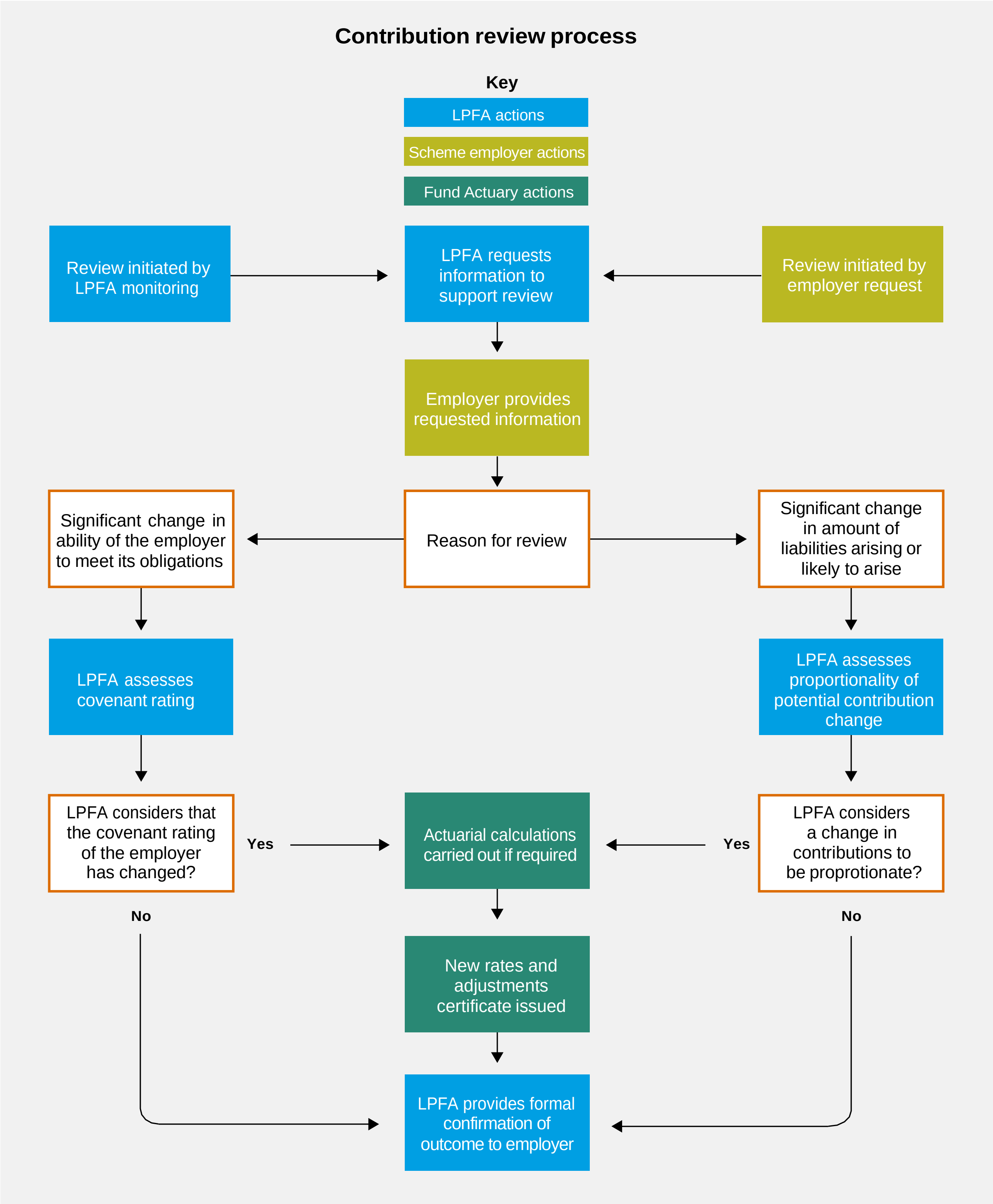
Introduction

1. This document sets out the London Pensions Fund Authority Pension Fund's policy on amending the contribution rates payable by an employer (or group of employers) between formal Funding valuations. **This policy supports LPFA's Funding Strategy Statement and is intended to meet the requirement under Regulations 64A(1)(a) to set out LPFA's policy on amending contributions between valuations.**
2. London Pensions Fund Authority Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.
3. Under Regulation 62, the London Pension Fund Authority, as the administering authority for the Fund, is required to obtain a formal actuarial valuation of the Fund and a rates and adjustments certificate setting out the contribution rates payable by each Scheme employer for three year period beginning 1 April following that in which the valuation date falls.
4. It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by LPFA. This policy document sets out LPFA's approach to considering the appropriateness of a review and the process in which a review will be conducted.

   Note that where contributions are reviewed, the contributions payable following the review will be superseded by the outcome of the subsequent actuarial valuation.
5. 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 drafting a contribution review policy which was issued by the Ministry of Housing, Communities and Local Government, and the Scheme Advisory Board's guide to employer flexibilities.
6. Throughout this document, any reference to the review of a Scheme employer's contribution rates will also mean the single review of the contribution rates for a group of Scheme employers (for example if the employers are pooled for funding purposes).
7. Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then LPFA can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under this contribution review policy.

The review process

8. The general process for assessing and conducting a review is set out graphically below. The process may vary in practice depending on each individual circumstance, but the process below provides a guide to LPFA's general expectation.



9. The process of triggering the review is similar whether it is triggered by LPFA or the Scheme employer. Details are set out in the "initiating a contribution review" section below.
10. The process followed depends on whether the review is initiated on the grounds of changing liabilities or changing ability to meet obligations. Details are set out in the "revising contributions" section below.

Responsibility for costs

11. Where the review of contributions has been initiated by LPFA, any costs incurred as part of the review will be met by the Fund.
12. Any costs incurred as a result of a review initiated by the Scheme employer will be the responsibility of the Scheme employer, regardless of the outcome of the review. This will include any legal, actuarial, or other specialist adviser fees. LPFA may also require the Scheme employer to make a payment in respect of LPFA's internal costs to administer the process and to carry out the covenant assessment process. LPFA will inform the Scheme employer of any such payment at the outset of the review. The Scheme employer will be required to confirm that it will pay these costs before the review begins.

Initiating a contribution review

13. As set out in Regulation 64(A)(1)(b), a review of an employer's contribution rate between formal actuarial valuations may only take place if one of the following conditions are met:
    (i) it appears likely to LPFA that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
    (ii) it appears likely to LPFA 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; or
    (iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.
14. Conditions (i) and (ii) are initiated by LPFA and (iii) by the Scheme employer. The key considerations under each of the conditions are detailed below.
15. It should be noted that the conditions are as set out in the Regulations therefore do not allow for a review of contributions due to a change in actuarial assumptions or asset values.

Where LPFA monitoring initiates a review

16. LPFA carries out regular monitoring to identify changes that could significantly affect either the liabilities likely to arise or the ability of the Scheme employer to meet its obligations.
17. Examples of changes that could trigger a review include, but are not limited to:

Potentially significant change in liabilities arising or likely to arise

- A significant outsourcing or transfer of staff
- Restructuring of a Multi Academy Trust
- Any other restructuring or event which could materially affect the Scheme employer's membership
- Changes to whether a Scheme employer is open or closed to new members, or a decision which will restrict the Scheme employer's active membership in the Fund in future
- Significant changes to the membership of an employer, for example due to redundancies, significant salary awards, ill health retirements or a large number of withdrawals
- Establishment of a wholly owned company by a scheduled body which does not participate in the LGPS.

Potentially significant change in ability of the Scheme employer to meet its obligations

- Change in employer legal status or constitution
- Provision of, or removal of, security, bond, guarantee or some other form of indemnity by a Scheme employer
- A change in a Scheme employer's immediate financial strength
- A change in a Scheme employer's longer-term financial outlook
- Confirmation of wrongful trading
- Conviction of senior personnel
- Decision to cease business
- Breach of banking covenant
- Failure to pay contributions in line with the Rates and Adjustments certificate
- Failure to reasonably engage with LPFA over a significant period of time.

18. As part of its participation in the Fund, Scheme employers are required to inform LPFA of any notifiable events as set out in LPFA's Employer Risk Management Framework. Through this notification process, LPFA may identify events that merit a review of contributions.
19. LPFA follows a risk-based approach to reviewing contributions. This means that LPFA will prioritise reviews where the Scheme employer is likely to be under-contributing as these situations pose a greater risk to the Fund and to the other Scheme employers. By prioritising these reviews, LPFA also hopes to minimise any unexpected increases in contributions for the Scheme employer that would otherwise become apparent only at the next actuarial valuation.

Where a request from a Scheme employer initiates a review

20. A request can be made by a Scheme employer for a review of contribution rates outside of the formal actuarial process. This request must be for one of the following two reasons:
    - There has been a significant change in the liabilities arising or likely to arise; and/or
    - There has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.
21. Any requests not arising from either of these conditions will not be considered by LPFA.
22. Requests should be made by contacting the Employer Management Services team: https://www.lpfa.org.uk/contact-us
23. Requests by a Scheme employer are limited to one review per scheme year (1 April to 31 March).
24. With the exception of any cases where the Scheme employer is expected to cease before the next rates and adjustments certificate comes into effect, LPFA will not accept a request for a review of contributions during the 12 months following the effective date of a funding valuation. Employers may still wish to notify LPFA of any events that might otherwise trigger a review and these will be considered in the actuarial valuation.
25. LPFA will provide a timeframe in which we intend to respond to the request. The timeframe may depend on the information provided and any need for LPFA to request further information from the Scheme employer. LPFA will provide a written response setting out the issues considered in reviewing the request from the Scheme employer, together with the outcome and confirming the next steps in the process.

Information required from the Scheme employer

26. Regardless of how the review is initiated, information will need to be provided to LPFA by the Scheme employer to support the process. The documentation required will depend on the reason for the review and the availability of information.
27. As part of its participation in the Fund, any Scheme employer is expected to support any reasonable information requests made by LPFA in order to allow effective monitoring.
28. For illustration only, some information that might be required is set out below.
    - Where a review is sought due to a potential change in the Scheme employer's liabilities:
      - Membership data or details of membership changes to evidence that the liabilities have materially changed, or are likely to change
    - Where a review is sought due to a potential change in the ability of the Scheme employer to meet its obligations:
      - The most recent annual report and accounts for the Scheme employer
      - The most recent management accounts
      - Financial forecasts for a minimum of three years (including rationale for any assumed growth/decline ofrevenue and margin)
      - The change in security or guarantee to be provided inrespect of the Scheme employer's liabilities
      - Copy of the employer's latest risk register
      - The employer business plan and/or corporate strategy plan (if available)
29. LPFA may require further evidence to support the request and this will be requested from the Scheme employer on a case by case basis. If insufficient evidence is available LPFA might need to make assumptions when assessing whether contributions should be changed. Prudent assumptions will be used for this purpose (i.e. assumptions that are unlikely to reduce contributions inappropriately).

Revising contributions

30. LPFA will need to assess whether the Scheme employer's contribution rate should change as a result of the review. The process of reviewing contributions will depend on whether the review is initiated on the grounds of changing liabilities or changing ability to meet obligations. It is possible that in some cases both grounds are relevant (for example a major restructuring could affect the Scheme employer's ability to meet its obligations and the liabilities arising or likely to arise). In these cases, LPFA will incorporate elements of both processes below.
31. LPFA will consider whether it is necessary to consult with any other Scheme employer, for example where a guarantee may have been provided by another Scheme employer.
32. LPFA will decide on the contributions to be paid following the review on a case by case basis. Any past decisions should not be considered as creating a precedent that will be followed in future. The final decision rests solely with LPFA after, if necessary, taking advice from the Fund Actuary.

    The time taken to review and, if appropriate, revise contributions will depend on the complexity of the change being assessed. LPFA will normally expect to take a decision and, if appropriate, prepare a revised Rates and Adjustments certificate within three months of receiving all the relevant data requested from the employer.

Where the review is initiated on the grounds of a significantchange in liabilities arising or likely to arise

33. Revising contributions to reflect a change in liabilities arising or likely to arise, but without reflecting updated actuarial assumptions or asset values, can be a complex process with significant costs. LPFA will, therefore, consider whether it is proportionate to revise the Scheme employer's contributions. In making this decision, LPFA will consider:
    - Any information provided by the Scheme employer;
    - Advice from the Fund Actuary, where appropriate;
    - The cost and administrative burden of revising contributions, relative to the potential change in contributions (particularly where costs are borne by LPFA); and
    - The risks and benefits of revising contributions or not for the Scheme employer, the Fund, and other Scheme employers.

34. Further considerations to those set out above may be relevant and will be taken into account by LPFA as required.
35. Where LPFA considers that it is not proportionate to revise contributions, we will inform the Scheme employer of the reasons for this outcome.
36. Where LPFA considers that it is proportionate to revise contributions, we will request that the Fund Actuary calculates the contribution rate and provides an updated Rates and Adjustments certificate. The principles and assumptions that will be used by the Fund Actuary for this purpose are set out in Appendix A.
37. The revised contributions will come into effect on a date specified by LPFA, which in most cases is expected to be the 1 April following the date from which the proposal is accepted.

Where the review is initiated on the grounds of a significant change in the Scheme employer's ability to meet obligations tothe Fund

38. LPFA's Employer Risk Management Framework sets out our approach to assessing the ability of Scheme employers to meet their obligations, and how this is monitored over time.
39. Based on the information available, LPFA will carry out a covenant assessment in line with the process set out in the Employer Risk Management Framework. LPFA will take a proportionate approach to carrying out the assessment.
40. Where LPFA considers that the Scheme employer's covenant rating has not changed since the most recent actuarial valuation, we will inform the Scheme employer of the reasons for this outcome.
41. Where LPFA considers that the Scheme employer's covenant rating has changed since the most recent actuarial valuation, we will request that the Fund Actuary calculates the contribution rate and provides an updated Rates and Adjustments certificate. The principles and assumptions that will be used by the Fund Actuary for this purpose are set out in Appendix A.
42. The revised contributions will come into effect on a date specified by LPFA, which in most cases is expected to be the 1 April following the date from which the proposal is accepted.

Decisions and disputes

43. The process outlined in this policy involves an element of subjective judgment about whether, and by how much, employer contributions should change. It is therefore possible that LPFA and an employer may disagree about the level at which contributions are set following the review. The approach to addressing such agreements will depend on the reason for the review.
44. Where the review is initiated on the grounds of a significant change in the Scheme employer's ability to meet obligations to the Fund, the dispute process set out in the Employer Risk Management Framework will be followed.
45. Where the review is initiated on the grounds of a significant change in liabilities arising or likely to arise, LPFA's preference will be to work with the employer to resolve any disagreements by way of mutual discussion between the employer and LPFA. If a disagreement cannot be resolved by way of further discussion, then LPFA may refer the employer's appeal to an independent third party for review. As this process may require the services of an external covenant assessor, any costs incurred by LPFA as a result of commissioning a third party would need to be met by the Scheme employer in full. We also note that LPFA is under no obligation to accept the findings of any third party involved in this process.

Appendix A:
Method used for reviewing contribution rates

A1. If LPFA concludes that contributions should be revised, calculations and advice will be required from the Fund Actuary to inform the revised rates and adjustments certificate.

A2. The calculations and assumptions required will depend on whether the review is initiated on the grounds of changing liabilities or changing ability to meet obligations. In either case, the primary intention will be to reflect only the feature that has changed. All other elements of the contribution rates will, to the extent possible, be calculated using the same data, method, and assumptions as were adopted to calculate the rates and adjustments certificate in force at the time of the review.

A3. The table below sets out the approach that LPFA expects to adopt. Different approaches may be used depending on the specific circumstances and based on any advice received from the Fund Actuary. Any deviations from the general approaches set out below will be agreed by LPFA and the Fund Actuary.

Reason for review	Significant change in liabilities arising or likely to arise	Significant change in the Scheme employer's ability to meet obligations to the Fund
Covenant rating	In line with the covenant rating awarded at the most recent actuarial valuation.	As specified following review by LPFA.
Member data	Where appropriate, LPFA's preference is to use the date used for the most recent actuarial valuation. Adjustments to this data would then be made to reflect the change in liabilities arising or expected to arise. In some cases, for example a major restructuring or merger of organisations, it may not be possible to adjust the most recent actuarial valuation data to reflect the change in liabilities arising or expected to arise. In these cases, updated membership data would be required.	The calculation will be based on the membership data used for the most recent actuarial valuation.
Approach to setting assumptions	This will be in line with that adopted for the most recent actuarial valuation, and in line with that set out in Fund's Funding Strategy Statement.	Assumptions will be in line with those adopted for the most recent actuarial valuation, based on the employer's revised covenant rating.
Market conditions underlying financial assumptions	Unless an update is deemed more appropriate by the Fund Actuary, the market conditions will be in line with those adopted at the most recent actuarial valuation.	Unless an update is deemed more appropriate by the Fund Actuary, the market conditions will be in line with those adopted at the most recent actuarial valuation.
Conditions underlying demographic assumptions	Unless an update is deemed more appropriate by the Fund Actuary, the conditions will be in line with those at the most recent actuarial valuation.	Unless an update is deemed more appropriate by the Fund Actuary, the conditions will be in line with those at the most recent actuarial valuation.
Surplus/deficit recovery period	The end date of any surplus/deficit recovery period will be the same as was adopted for the most recent actuarial valuation.	The end date of any surplus/deficit recovery period will be set in line with the Funding Strategy Statement, based on the revised covenant rating. This may result in a longer or shorter spreading period than was adopted for the employer at the most recent actuarial valuation.