

**ADDITIONAL WORDING TO BE INCLUDED IN APPENDIX C OF
THE FUNDING STRATEGY STATEMENT FOR CONSULTATION
WITH EMPLOYERS.**

APPENDIX C - ADMISSION AND TERMINATION POLICY, FLEXIBILITY FOR EXIT PAYMENTS AND DEFERRED DEBT AGREEMENTS

POLICY IN RELATION TO THE FLEXIBILITY FOR EXIT DEBT PAYMENTS AND DEFERRED DEBT AGREEMENTS (DDA)

The Fund's policy for termination payment plans is as follows:

1. The default position is for exit payments to be paid immediately in full unless there is a risk sharing arrangement in place with a guaranteeing Scheme employer in the Fund whereby the exiting employer is not responsible for any exit payment. In the case of an exit credit the determination process set out above will be followed.
2. At the discretion of the administering authority, instalment plans over an agreed period or a Deferred Debt Agreement will only be agreed subject to the policy in relation to any flexibility in recovering exit payments.

As set out above, the default position for exit payments is that they are paid in full at the point of exit (adjusted for interest where appropriate). If an employer requests that an exit debt payment is recovered over a fixed period of time or that they wish to enter into a Deferred Debt arrangement with the Fund, they must make a request in writing covering the reasons for such a request. Any deviation from this position will be based on the Administering Authority's assessment of whether the full exit debt is affordable and whether it is in the interests of taxpayers to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and, depending on the employer's circumstances, will either be required as an upfront payment or included in the contribution plan or exit debt payment.

The following policy and processes will be followed in line with the principles set out in the statutory guidance published 2 March 2021.

POLICY FOR SPREADING EXIT PAYMENTS

The following process will determine whether an employer is eligible to spread their exit payment over a defined period.

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided then the default policy of immediate payment will be adopted.
2. Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant and legal advisors where necessary) will review the covenant of the employer to determine whether it is in the interests of the Fund to allow them to spread the exit debt over a period of time. Depending on the length of the period and also the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payments.
3. This could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.
4. The initial process to determine whether an exit debt should be spread may take up to [3] months from receipt of data so it is important that employers who request to spread exit debt payments notify the Fund in good time
5. If it is agreed that the exit payments can be spread then the Administering Authority will engage with the employer regarding the following:
 - a. The spreading period that will be adopted (this will be subject to a maximum of [5] years).
 - b. The initial and annual payments due and how these will change over the period
 - c. The interest rates applicable and the costs associated with the payment plan devised
 - d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account etc.
 - e. The responsibilities of the employer during the exit spreading period including the supply of updated information and events which would trigger a review of the situation
 - f. The views of the Actuary, covenant, legal and any other specialists necessary
 - g. The covenant information that will be required on a regular basis to allow the payment plan to continue.
 - h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances)

6. Once the Administering Authority has reached its decision, the arrangement will be documented and any supporting agreements will be included.
7. Subject to the employer's circumstances, any costs will either be required as an upfront payment or included in the contribution plan.

EMPLOYERS PARTICIPATING WITH NO CONTRIBUTING MEMBERS

As opposed to paying the exit debt an employer may participate in the Fund with no contributing members and utilise the "Deferred Debt Agreements" (DDA) at the sole discretion of the Administering Authority. This would be at the request of the employer in writing to the Administering Authority.

The following process will determine whether the Fund and employer will enter into such an arrangement:

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation. If this information is not provided then a DDA will not be entered into by the Administering Authority
2. Once this information has been provided, the Administering Authority will firstly consider whether it would be in the best interests of the Fund and employers to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the exit debt that would be required if the arrangement was not entered into is affordable at that time (based on advice from the Actuary, covenant and legal advisor where necessary).
3. The initial process to determine whether a Deferred Debt Agreement should apply may take up to [3] months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date.
4. If the Administering Authority's assessment confirms that the potential exit debt is not affordable, the Administering Authority will engage in discussions with the employer about the potential format of a Deferred Debt Agreement using the template Fund agreement which will be based on the principles set out in the Scheme Advisory Board's separate guide. As part of this, the following will be considered and agreed:
 - What security the employer can offer whilst the employer remains in the Fund. In general the Administering Authority won't enter into such an arrangement unless they are confident that the employer can support the arrangement on an ongoing basis. Provision of security may also result in a review of the recovery period and other funding arrangements.
 - Whether an upfront cash payment should be made to the Fund initially to reduce the potential debt.

- What the updated secondary rate of contributions would be required up to the next valuation.
- The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
- The advice of the Actuary, covenant, legal and any other specialists necessary.
- The responsibilities that would apply to the employer while they remain in the Fund.
- What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the secondary contributions (e.g. provision of security).
- The circumstances that would trigger a variation in the length of the deferred debt agreement (if appropriate), including a cessation of the arrangement (e.g. where the ability to pay contributions has weakened materially or is likely to weaken in the next 12 months). Where an agreement ceases an exit payment (or credit) could become payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring.
- Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment or change in security underpinning the agreement.

The Administering Authority will then make a final decision on whether it is in the best interests of the Fund to enter into a Deferred Debt Agreement with the employer and confirm the terms that are required.

5. For employers that are successful in entering into a Deferred Debt Arrangement, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the Deferred Debt Agreement in the interim if any of the agreed triggers are met.
6. The costs associated with the advice sought and drafting of the Deferred Debt Agreement will be passed onto the employer as part of the arrangements and contribution requirements. Subject to the employer's circumstances, any costs will either be required as an upfront payment or included in the contribution plan.