WIRRAL COUNCIL

PENSIONS COMMITTEE

18 SEPTEMBER 2012

SUBJECT:	**REVIEW OF POTENTIAL UNFUNDED LIABILITIES FOR ADMISSION BODIES**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**INTERIM DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report informs members of the details of the annual review undertaken by the Fund Actuary of the potential unfunded liabilities for admission bodies as at 31 March 2012.

1.2 A further report on this agenda contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information)

2.0 BACKGROUND AND KEY ISSUES

2.1 The results of the previous admission bodies liability review as at 31 March 2011 was considered by the Committee on 27 June 2011 (Minute 28 refers). In accordance with the Committee decision on 22 March 2000 (Minute 52 refers) officers were also asked to specifically monitor the potential unfunded liabilities in respect of premature closure of admission bodies with high levels of potential liability (£250,000 or more). This has been carried out by the Actuary undertaking an annual funding review and the Fund requesting and examining annual reports and accounts from the relevant organisations.

2.2 The details in respect of the latest review of potential unfunded liabilities for admission bodies at 31 March 2012 are attached within the exempt appendices.

2.3 The calculations have been determined by initially considering the 2010 Valuation funding position and the liabilities has been updated to take account of contributions paid versus the cost of benefit accrued, net investment return on the Fund’s assets and change in bold yields.

2.4 In accordance with the MPF's Funding Strategy Statement the assessment of the employers potential exit debt will be based on a more cautious basis to determine final liabilities. The financial assumptions usually applicable are consistent with the equivalent assumptions adopted for the IAS19 Accounting Standard, on the proviso that the financial assumptions used are no less cautious than the valuation assumptions. The position of the corporate bond market as at 31 March 2012 means that the ongoing valuation assumptions are more prudent than those based on corporate bond yields due to the low gilt yields prevailing as a consequence of the financial crisis. As a result the Actuary has recommended that the valuation basis is adopted as the termination basis at 31 March 2012.

2.5 The latest liabilities quoted are approximate and do not take into account updated membership information for all employers and cash flows since the valuation. As such, the amounts quoted do not implicitly represent the accurate exit debts owing if bodies participation of the scheme ceased at 31 March 2012. However the figures provide the Fund and bodies with a reasonable basis to determine the contingent funding obligations and provide adequate risk coverage.

2.6 On a general basis the bond requirements have significantly increased from the 2010 bond levels which are currently in force. The bond amounts calculated at 31 March 2011 review were less than the 2010 liability figures, due to the impact of the change of indexation of pension benefits from RPI to CPI, which had a positive effect on long term funding and liabilities. However the Committee resolved on 27 June 2011 that it was prudent to defer any reductions to the existing bond coverage depending on the outcome of the judicial review on the indexation of Public Sector Pensions.

2.7 The Actuary has calculated the potential unfunded liabilities as follows:

i. The cost of providing immediate benefits to those members age 55 or over in the year 1 April 2012 to 31 March 2013

ii. Less, 50% of the potential savings that may materialise in respect of members under age 55 with deferred benefits.

iii. Plus the existing surplus or deficit at 31 March 2012.

The deficit will normally be recovered over a 15 year period by the payment of annual lump sum cash amounts which include allowances for assumed future pay inflation.

2.8 On the termination of a Transferee Admission Body (TAB) agreement, the Regulations provide that the contribution rate for the relevant Scheme employer is revised to recover any unfunded pension liabilities that cannot be recovered either from the TAB or from any bond provided. The need to carry out an actuarial risk assessment and the level of required bond provision in these cases is a matter for the relevant Scheme employer to determine. In order to inform the employers of the extent of the unfunded liabilities the Actuary has calculated the potential costs for each TAB and the Fund will notify the transferor scheme employer of the amounts identified in due course.

2.9 The actual unfunded liabilities for each body would not be known until the body closed and precise calculations are done at that time.

2.10 A number of admission bodies have found it difficult to obtain from financial institutions the required financial guarantees or indemnities previously recommended by the Actuary and alternatives such as charges against property or parent company guarantees have been agreed in a number of cases with the Fund.

2.11 I believe that it is likely that in view of the current stringent credit measures imposed by banks and financial institutions that many admission bodies will find it difficult to obtain the indicated increased indemnities at this time. There would also be a real likelihood of pushing a number of these organisations into closure, faced with a requirement to provide such further increased guarantees against what are only estimated potential liability figures.

2.12 Having regard to the current circumstances, therefore, I would recommend that bond requirements are not increased based on the latest figures provided by the Actuary but are retained at the 31/03/2010 levels. A further review will be undertaken at 31/3/2013 as part of the actuarial valuation and the level of bonds required should be reconsidered having regard to the outcome of the funding consultation and the financial position at that time.

2.13 For any admission body that does not have either a local authority guarantor or a bond or indemnity the employer contribution rate remains subject to a risk premium loading to aim to achieve a funding level of 120% of the active member's liabilities over the long term (normally 15 years).

2.14 In order to mitigate risk of future unrecoverable debt from employers, any new admissions of Community Admission Bodies will be required to fund on a least risk basis to minimise the possibility of unfunded pension's liabilities resulting in the event of closure. The opportunity to fund on this basis whereby the employer's assets will then be deemed to be invested in Government bonds in order to minimise risk on closure has also been made available to existing admission bodies.

3.0 RELEVANT RISKS

3.1 The provision of adequate guarantees reduces the financial risk to all scheme employers from subsuming pension costs for employers exiting the Fund. If compelled to implement the increased financial indemnities organisations may face significant financial hardship which may possibly lead to the employer's insolvency or bankruptcy. The contingent termination debts would actually crystallise leaving the Fund with immediate unrecoverable debt with responsibility for honouring the pension promises made to the employees.

4.0 OTHER OPTIONS CONSIDERED

4.1 None.

5.0 CONSULTATION

5.1 The Fund consulted with employers during autumn 2010 before updating the Funding Strategy Statement which includes the methodology for determination of bond requirements.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 None arising from this report.

7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

7.1 In the event that the increased bond coverage is sought Officers of MPF and the Legal Monitoring Officer will be required to engage in prolonged negotiations with employers. This is likely to result in non compliance of the employer on the grounds of affordability or the inability to obtain a bond from an appropriate provider

8.0 LEGAL IMPLICATIONS

8.1 None arising from this report.

9.0 EQUALITIES IMPLICATIONS

9.1 None arising from this report.

9.2 Equality Impact Assessment (EIA)
(a) Is an EIA required? No

10.0 CARBON REDUCTION IMPLICATIONS

10.1 None arising from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 None arising from this report.

12. RECOMMENDATIONS

12.1 Members are recommended to consider, having regard to the current difficult financial circumstances and the reasonableness and practicality of implementation, that the bond requirements for Community Admission Bodies are not increased but instead are retained at the current 2010 levels. However, Employers will be informed of the potential unfunded liabilities to increase awareness of their financial obligations.

12.2 The level of funding guarantees provided by local authorities or other statutory bodies to the Fund will however continue to be increased in accordance with the amount of the unfunded liability.

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APPENDICES

Exempt Appendices included in committee papers

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee **Review of Potential Unfunded Liabilities For Admission Bodies**	**27 June 2011**

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