WIRRAL COUNCIL

PENSIONS COMMITTEE

1 JULY 2014

SUBJECT:	**REVIEW OF POTENTIAL UNFUNDED LIABILITIES FOR ADMISSION BODIES**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION AND RESOURCES**
KEY DECISION	**NO**

1 EXECUTIVE SUMMARY

1.1 This report informs members of the annual review of potential unfunded liabilities for admission bodies. This work is undertaken by the Fund Actuary Mercer, following an actuarial review, as at 31 December 2013.

1.2 The Appendix to the report contains exempt information. This is by virtue of paragraph(s) 3 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 BACKGROUND AND KEY ISSUES

2.1 In accordance with the Committee decision on 22 March 2000 (Minute 52 refers), officers were 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 work is undertaken by the Actuary performing an annual funding review and officers considering the financial strength and covenants of the relevant organisations.

2.2 The results of the admission bodies previous liability review, as at 31 March 2012, was considered by the Committee on 18 September 2012 (Minute 27 refers).

2.3 The details in respect of the latest review of potential unfunded liabilities for admission bodies at 31 December 2013 are attached within the exempt appendix.

2.4 The calculations have been determined by considering the 2013 Valuation funding position and assets and liabilities have subsequently been rolled forward to 31 December 2013 to take account of the change in market conditions since the valuation date of 31 March.

As such the funding positions presented for each employer are approximate as they do not reflect updated membership movements and cashflows since the valuation, but they provide Merseyside Pension Fund with a reasonable basis to determine the level of risk exposure.

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

2.5 In accordance with the Funding Strategy Statement, the assessment of the employers potential exit debt will be based on a more cautious basis, than ongoing funding arrangements to on determine final liabilities.

2.6 The financial assumptions applicable to determine the contingent liabilities 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.

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 January 2014 to 31 December 2014
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 December 2014.

2.8 For any admission body that does not have either a local authority guarantor, a bond or indemnity, the employer contribution rate remains subject to a risk premium loading. The aim of the risk premium is to achieve a funding level of 120% of the active members' liabilities over the body's recovery period.

2.9 On a general basis, the bond requirements have significantly increased from the 2010 bond levels which are currently in-force.

The bond amounts calculated during the inter-valuation period have not been implemented as Committee resolved it inappropriate to levy exponential increases on employers due to unprecedented falls in gilt yields.

2.10 Due to the inordinate timeframe to complete the legalities in revising the level of bonds, the latency period between receipt of the information and the committee calendar, the respective employers have all been notified that the bonds in force should be increased to reflect the updated unfunded liability position.

3 RELEVANT RISKS

3.1 As there are significant shortfalls in the majority of bonds in-force relative to the actuarial assessment of the potential termination debts, there is a risk that in the event of a Community Admission Body exiting the Fund any unrecoverable debt will fall to the remaining employers within the Fund.

3.2 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 liabilities resulting in the event of closure.

4 OTHER OPTIONS CONSIDERED

4.1 None.

5 CONSULTATION

5.1 The Fund consulted with employers during autumn 2013 before updating the Funding Strategy Statement, which included the methodology for determination of bond requirements.

6 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 None arising from this report.

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

7.1 Community Admission Bodies will be required to provide additional security and will incur increased charges from the bond provider.

7.2 In the event that the body is unable to secure the notified level of cover, Officers will engage in dialogue to reach an equitable solution within the parameters of the funding strategy.

8 LEGAL IMPLICATIONS

8.1 None arising from this report.

9 EQUALITIES IMPLICATIONS

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

10 CARBON REDUCTION IMPLICATIONS

12.1 None arising from this report.

11 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 None arising from this report.

12 RECOMMENDATION/S

12.1 Members are recommended to support the revision of bond requirements and guarantees in accordance with the latest figures provided by the Actuary.

13 REASON FOR RECOMMENDATION/S

13.1 Following the 2012 annual potential unfunded liability review, Committee resolved to reconsider the position following the triennial valuation as the rebasing of membership movements would reasonably reflect the level of risk exposure and provide a sound justification to the revised bond requests

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SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**
Pensions Committee **Review of Potential Unfunded Liabilities For Admission Bodies**	**27 June 2011** **18 September 2012**

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