WIRRAL COUNCIL

PENSION COMMITTEE

14 SEPTEMBER 2015

SUBJECT:	**EMPLOYER TERMINATION DEBT ASSESSMENT**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION AND RESOURCES**
KEY DECISION	**NO**

1.0 **EXECUTIVE SUMMARY**

1.1 The Funding Strategy Statement sets out the basis for valuing assets and liabilities in the event of an employer terminating its participation in the fund. The policy is designed to be equitable to both the exiting employer and the continuing employers within the Fund.

1.2 Mercer have provided advice to the Administering Authority following recent changes in the LGPS Regulations governing the options and treatment available to Administering Authorities either at termination, or prior to an expected termination at some point in the future. Mercer’s advice is contained within Appendix 1.

1.3 The main changes relate to how a termination assessment can be triggered and the repayment plan to be set by the Administering Authority. This has implications for the basis on which the termination value is assessed.

2.0 **BACKGROUND AND KEY ISSUES**

2.1 When an employer leaves the Fund, there is no further recourse to that body if the accumulated assets notionally allocated to that body at the exit date prove to be inadequate in meeting future benefit payments. As the body supporting these liabilities will have no ongoing responsibility in respect of these liabilities once they have left the Fund, the residual liabilities will then become the responsibility of any existing guarantor in the Fund or of the Fund as a whole (i.e. all participating employers), in which case they become known as “orphan liabilities”.

2.2 Therefore an exit contribution payment will be requested from the outgoing employer or guarantor (unless the deficit passes to the guarantor within the Fund). The exit payment is assessed on the termination basis which depends on the nature of the employer as per appendix 2 of the Funding Strategy Statement.

2.3 For certain employers without a guarantor in the Fund, the Actuary uses a more prudent basis than the normal ongoing funding basis which increases the termination payment. This provides some protection to the other employers from adverse movements in the financial markets after the employer exits the Fund, given this cannot be reclaimed from the original employer.

2.4 The current termination basis uses the non-financial assumptions from the latest triennial valuation to value the liabilities. The Fund does not make any adjustment to these (mainly demographic) assumptions.

2.5 The Fund currently agrees a payment plan with the exiting employer. If an instalment plan is agreed, the plan cannot be reassessed at subsequent valuations.

3.0 RELEVANT RISKS

Termination Payment Plans:

3.1 The Regulations have been amended so that termination calculations are triggered for any employer when the last active member leaves. The Regulations give power to the Fund to set a payment plan to recover the outstanding debt at its discretion. However, under the new Regulations, once set this plan is generally not reviewable at subsequent valuations unless the administering authority considers it appropriate to revisit the repayment schedule.

3.2 The Fund's policy for termination payment plans will be as follows:

a) The default position is for exit payments to be paid immediately in full.

b) Instalment plans over a defined period will only be agreed when there are issues of affordability that risk the financial viability of the organisation and the ability of the Fund to recover the debt. The Fund will also seek to obtain further security from the outgoing employer where deemed necessary.

Termination basis

3.3 A key risk to the Fund is the inability of an individual employer to meet its liabilities, especially when it ceases to be an employing body within the Fund. Along with other issues, such as covenant strength, the assessment of termination liabilities that is equitable to all scheme employers is crucial part of the risk management process.

3.4 The Actuary has advised that the use of the more prudent basis is still appropriate for assessing liabilities on termination. These bases are intended to mitigate financial market risks. However, it may not provide sufficient protection against future adverse demographic experience relative to the assumptions which could emerge at future triennial valuations.

3.5 Historically, there have been few large employers that have left the Fund. However, with the advent of auto-enrolment and a difficult funding environment, more employers are reconsidering their participation in the scheme and in some cases they are actively seeking to exit the Fund. In this environment there is an increased risk that adverse movements in the funding assumptions could have a more significant impact on the remaining participating employers over time, if demographic experience turns out worse than expected. Therefore the Actuary feels it is appropriate to include a higher level of prudence in the demographic assumptions on termination to further protect the remaining employers.

3.6 The Actuary advises a reasonable adjustment is made to the assumption for longevity improvements over time by increasing the longevity improvement rate from a long term trend of 1.5% p.a. (used in the 2013 valuation for ongoing funding and contribution purposes) to 2% p.a. (in relation to the termination assessment for an outgoing employer).

3.7 The Fund's policy for the termination funding basis will normally be as follows:

Use a 2% p.a. long term rate for longevity improvements.

3.8 These changes to policy will be incorporated in the next review of the FSS.

3.9 The assumptions adopted for termination assessments will be next reviewed as part of the 2016 valuation.

4.0 **OTHER OPTIONS CONSIDERED**

4.1 Not relevant for this report

5.0 **CONSULTATION**

5.1 Not relevant for this report.

6.0 **IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

6.1 Not relevant for this report.

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

Not relevant for this report

8.0 **LEGAL IMPLICATIONS**

8.1 Not relevant for this report.

9.0 **EQUALITIES IMPLICATIONS**

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

No because there is no relevance to equality.

10.0 **CARBON REDUCTION IMPLICATIONS**

10.1 Not relevant for this report.

11.0 **PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

11.1 Not relevant for this report.

12.0 **RECOMMENDATIONS**

12.1 The Committee:
Approves the changes to the termination policy with regard to:

ii. Repayment plans
iii. The margin for adverse demographic risk factors

13.0 **REASON/S FOR RECOMMENDATION/S**

13.1 See relevant risks section.

REPORT AUTHOR: **Yvonne Caddock**
Principal Pension Officer
telephone: (0151 242 1333)
email: yvonnecaddock@wirral.gov.uk

APPENDICES

Mercer’s advice is contained within Appendix 1.

REFERENCE MATERIAL

Not relevant for this report

SUBJECT HISTORY (last 3 years)

Council Meeting	Date