WIRRAL COUNCIL

PENSIONS COMMITTEE

14 SEPTEMBER 2015

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

1.0 EXECUTIVE SUMMARY

1.1 This report informs members on the annual review of potential unfunded liabilities for admission bodies. This work is undertaken by Mercer the Fund Actuary, following an actuarial review as at 31 March 2015.

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).

2.0 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 the premature closure of admission bodies with a high level of indicative 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 December 2013, was considered by the Committee on 1 July 2014 (Minute 12 refers).

2.3 The details in respect of the latest review of potential unfunded liabilities for admission bodies at 31 March 2015 are attached within the exempt appendix.

2.4 The calculations have been determined by considering the 2013 Valuation funding position, the assets and liabilities have been rolled forward by reflecting estimated cashflows, net investment returns on the Fund's assets and the change in bond yields.

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 unless the body closed and precise calculations would be undertaken 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 used to determine employer contributions.

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 April 2015 to 31 March 2016

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 2015.

2.8 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

2.9 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.

2.10 On a general basis, the bond requirements have increased by an average of 200% from those currently in-force, as revised following the 2013 triennial valuation.

2.11 In view of the current financial pressures faced by employers, which will be exacerbated next April by the loss of the employer's contracted out rebate, many admission bodies will find it difficult to secure the increased indemnities.

If the Fund seeks to increase the bond levels inline with the current calculations, a number of employers will be forced into closure on the basis of a speculative event.

3.0 RELEVANT RISKS

3.1 As there are significant shortfalls in the majority of in-force bonds 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 If compelled to implement the increased financial indemnities, employers may face significant financial hardship which could lead to the employer's insolvency. There would be a high risk that the termination debts would crystallise leaving the Fund with an immediate irrecoverable debt.

4.0 OTHER OPTIONS CONSIDERED

4.1 None.

5.0 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.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 None associated with the subject matter

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 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, Fund Officers and the Monitoring Officer will be required to engage in prolonged negotiations with employers. In some instances, 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 (a) has the potential impact of your proposal(s) been reviewed with regard to equality?

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

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. 0 RECOMMENDATION/S

12.1 Members are recommended to consider, having regard to the current financial pressures facing employers, that the bond requirements for Community Admission Bodies are not increased but are retained at the current 2013 levels.

13.0 REASON FOR RECOMMENDATION/S

13.1 A further review will be undertaken at 31/3/2016 as part of the triennial valuation and the level of the bonds will be reconsidered having regard to the outcome of the consultation on the Funding Strategy Statement and the financial position at that time

13.2 Employers who have a risk premium or any local authority or statutory bodies that underwrite the pension obligations of any scheme employer will be informed of the potential unfunded liabilities to apprise them of their financial obligations

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

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Review of Potential Unfunded Liabilities For Admission Bodies	**27 June 2011**
Review of Potential Unfunded Liabilities For Admission Bodies	**18 September 2012**
Review of Potential Unfunded Liabilities For Admission Bodies	**1 July 2014**