WIRRAL COUNCIL

PENSIONS COMMITTEE

22 JANUARY 2018

SUBJECT:	**REVIEW OF POTENTIAL UNFUNDED LIABILITIES FOR COMMUNITY ADMISSION BODIES WITH BONDS OR GUARANTORS**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF PENSIONS**
KEY DECISION	

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 the actuarial review as at 31 March 2017.

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.

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 2015, was considered by the Committee on 14 September 2015 (Minute 27 refers).

2.3 The details in respect of the latest review of potential unfunded liabilities for admission bodies at 31 March 2017 are attached within the exempt appendix.

2.4 The baseline of the calculations were aligned to the 2016 valuation funding position, which has been approximately rolled forward to 31 March 2017; these allow for contributions paid (versus costs of benefits accrued), cashflow information since the valuation date and estimated investment returns on the Fund's assets.

An allowance has also been included to reflect the change in the real return outlook since the valuation date which is used to determine the liabilities on a termination basis.

2.5 The funding positions presented for each employer do not allow for membership changes since the valuation and therefore are approximate, although the assessments provide a reasonable basis to determine the level of risk exposure if an employer exits the Fund without a structured de-risking plan.

2.6 It is noteworthy that the actual unfunded liabilities for each body would not be known unless the body closed and precise calculations undertaken at that time.

2.7 In accordance with the Funding Strategy Statement, the assessment of the employers potential exit debt has been based on a more cautious corporate bond yield termination basis, than the ongoing funding arrangements used to determine employer contributions.

2.8 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 2017 to 31 March 2018
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 2017

2.9 A number of admission bodies have found it difficult or deemed it uneconomically viable to obtain the full bond requirement recommended by the Actuary from financial institutions and alternatives such as charges against property or parent company guarantees have been agreed in a number of cases with the Fund

2.10 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.

2.11 On a general basis, the bond requirements have increased by an average of 230% from those currently in-force, as revised following the 2013 triennial valuation. This is mainly due to a fall in bond yields over the last few years which affect the illustrative termination liabilities.

Changes to the positions since 31 March 2017

2.12 Although investment returns since April 17 have continued to be positive mainly due to equity markets the assumptions used for calculating the termination basis will have changed which will in turn increase liabilities. This offsets the positive asset returns resulting in negligible changes to the bond/ indemnity levels.

2.13 In view of the current financial pressures faced by employers, the Fund is mindful of the necessity to enter in to dialogue with employers in respect of covenant strength and any adverse impact of obtaining full coverage of the liability on the overall business plan; given that the basis of the bond calculations relate to a speculative closure 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 October 2016 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.

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

8.1 As the bond increases are significant, in order to determine appropriate uplifts Fund Officers will be required to engage with the employer's Chief Financial

Officers; to undertake further analysis of the organisations financial strength to reach a mutually agreed position, which mitigates the Fund's exposure to irrecoverable debt.

8.0 LEGAL IMPLICATIONS

9.1 None arising from this report.

10 EQUALITIES IMPLICATIONS

10.1 (a) has the potential impact of your proposal(s) been reviewed with regard to equality?

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

11.0 CARBON REDUCTION IMPLICATIONS

11.1 None arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 None arising from this report.

13. RECOMMENDATION/S

13.1 Members are recommended to support the revision of the bond requirements and guarantees, in accordance with the latest figures provided by the Actuary as at 31/3/2017.

13.2 In the event that it is impractical and unaffordable for an employer to increase the level of bond/indemnity to the latest advised amount detailed in the exempt appendix, that Members delegate Fund Officers to conduct an appropriate due diligence exercise and enter into negotiations with the employer to reach a mutually agreeable position. Any such due diligence exercise to be conducted under a consistent framework and in compliance with the Funding Strategy Statement.

14.0 REASON FOR RECOMMENDATION/S

14.1 Following the 2015 annual potential unfunded liability review, Committee resolved to reconsider the position following the triennial valuation having regard to the assessment of accurate membership movement which would provide a sound baseline to reflect potential termination liabilities and associated bond /indemnity requirements.

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SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Review of Potential Unfunded Liabilities For Admission Bodies	**1 July 2014**
Review of Potential Unfunded Liabilities For Admission Bodies	**15 September 2015**