ADMISSION SUMMARY PAPER

WIRRAL MENTAL HEALTH SERVICES

MERSEYSIDE PENSION FUND

SUMMARY DETAILS

1. New Employer: Wirral Mental Health Services

Date of Admission:	1 April 2018
Employer type:	Admitted Body
Guarantor body*:	Wirral Metropolitan Borough Council
Original employer:	Wirral Metropolitan Borough Council
Contract length:	4 years
Funded status at inception:	Fully Funded
Covered by ill-health captive arrangement:	No

**In line with underlying LGPS regulations.*

2. Initial Membership Summary at Date of Admission

Number of pensionable employments:		118
Average age (years):		49
Pensionable pay (£ p.a.):		
Pre 2014 - 2016/17	- Actual	3,322,215
	- Full time equivalent	3,681,522
Post 2014 - 2016/17	- Actual*	3,463,823
Average pensionable service (years):		14.5
Total accrued pension** (£ p.a.):		852,625
Total pre April 2008 lump sum (£):		1,071,115
Open or closed to new members:		Closed

**Please note that if part year data has been received, this has been annualised based on the information provided.*

***Includes an estimate of the CARE pension from 1 April 2017 to the admission date.*

3. Funding Details as at Inception

Funding basis	Ongoing
Underlying assumptions for calculations	31 March 2016 actuarial valuation (updated for market conditions at 31 December 2017)
Initial past service liabilities*	£14,748,000
Initial asset share*	£14,748,000
Initial surplus / (deficit)*	Nil
Initial funding level	100%
Deficit recovery period used*	n/a

**Subject to review at the next actuarial valuation or required review of rate if earlier.*

4. Initial Contribution Requirements

Average employee contribution rate (% of pensionable pay)	6.6%		
Future service employer contribution rate (% of pensionable pay)	Open n/a		Closed 18.9%
Annual deficit lump sum payments	n/a		
Deficit lump sum payments	2018/19 n/a	2019/20 n/a	2020/21 n/a

Additional capital contributions will be paid in relation to non-ill health early retirements.

The contributions payable from 1 April 2020 will be reassessed as part of the 2019 actuarial valuation exercise.

5. Potential Funding Risks and Bond Requirement

Basis of assessment to be applied on termination of admission agreement	Ongoing
Underlying assumptions for calculations	31 March 2016 actuarial valuation (updated for market conditions at 31 December 2017)

Risk Factor	**Associated Effect**
(including reference to Risk Assessment Information Report section if relevant)	
(i) Potential unfunded liabilities arising from non-ill health early retirement costs	£1,401,000
(ii) Allowance for potential saving from members leaving with deferred benefits	n/a - not requested
(iii) Net potential unfunded liabilities in relation to membership changes on termination i.e. (i) less (ii) (see section 2.2)	£1,401,000
(iv) An unexpected increase of 5% in liabilities (see section 2.3)	n/a - not requested
(v) Increase in liabilities due to a fall in discount rate of 0.5% relative to CPI (see section 2.3)	n/a - not requested
(vi) Short-to-medium term growth in liabilities and hence risk profile (see section 2.3)	n/a - not requested
(vii) Initial shortfall of assets versus liabilities (see section 2.4)	Nil
(viii) Effect of a 10% fall in return-seeking assets (see section 2.6)	n/a - not requested
(ix) Materiality Measure - Payroll of new employer vs. guarantor (see section 2.7)	n/a - not requested

6. Summary of Main Financial Assumptions

	Past Service Liability	Future Service Contribution Rate
Date of Assumptions	31 December 2017	31 December 2017
Derivation of Discount Rate	CPI plus 2%	CPI plus 2.75%
Discount rate	4.4% per annum	5.15% per annum
Salary increases	3.9% per annum	3.9% per annum
Pension increases in payment	2.4% per annum	2.4% per annum

Additional Comments

The calculations underlying the figures quoted in this paper are based on the underlying methodology and assumptions adopted for the actuarial valuation of the Fund as at 31 March 2016, updated for market conditions at 31 December 2017.

In the normal course of events we would not propose to update these figures for subsequent changes in market conditions unless otherwise requested.

The data provided also listed 16 optants-out but, as they are not currently active members of the Fund, they have been excluded from our calculations.

A bond assessment alone has been commissioned as part of the instructions received from the Administering Authority and therefore only the funding risk in relation to membership changes on termination (sections 5(i)-(iii)) will be shown above. The remaining funding risks would be covered in a full risk assessment.

When the participation in the Fund comes to an end (or is prematurely terminated for any reason including the last employee leaving service) the value of the pension liabilities built up can be very substantial. At this point, the financial obligations are likely to crystallise (as it is unlikely that the body would make subsequent contributions to the Fund).

Any guarantee, indemnity or bond that is put in place by the body can be called upon when the admission agreement comes to an end with the aim of meeting any potential unfunded liabilities which may arise which cannot be recovered from the body.

The risk factors as shown above could result in possible unfunded liabilities and hence might be considered when determining an appropriate bond.

Historically if a bond was required it was usually determined based on the net potential unfunded liabilities in relation to membership changes plus any initial deficit. (As requested, we have assumed that the initial funding position for this body will be fully funded; therefore there is no initial surplus or deficit.) This bond assessment was on the basis that these costs represented the initial level of "exposure" to potential unfunded liabilities for the guarantor (if one exists). If this approach were adopted then the initial bond would be £1,401,000.

The key issues in relation to the bond are the commercial aspects relating to the body (if applicable). Further commentary is shown in the Explanatory Notes below. It is becoming more important for employers to understand and quantify the commercial pension risks relating to transferring staff to a new employer. We have specialist knowledge in this area and have helped develop policies for councils as well as advising on specific cases. Please contact us if the various stakeholders wish to discuss these aspects further.

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The calculations in this paper have been commissioned by the Administering Authority. The advice in this paper has been prepared for the purpose of advising the Administering Authority in relation to the employer's contribution requirements to the Fund and the potential pension fund financial risks associated with this admission agreement. Where this paper is disclosed to any person other than the Administering Authority, it is for information only. We do not accept liability to any third party in respect of the contents of this paper; nor do we accept liability to the Administering Authority if the advice is used for any purpose other than that stated. No third party shall be entitled to rely on the advice and calculations contained in this paper, and any third party who needs to assess the related pension costs for any purpose should make their own calculations and take separate advice as appropriate. This advice is confidential and may not be disclosed in whole or in part to any third party without Mercer's prior written consent, unless required by law or order of a court or regulatory body. Mercer retains all copyright and other intellectual property rights in the advice.

We have relied on the accuracy of the data provided. Whilst reasonableness checks on the data provided have been carried out, they do not guarantee the completeness or accuracy of the data. Consequently we do not accept any liability in respect of our advice where we have relied on data which is incomplete or inaccurate.

"Technical Actuarial Standard 100: Principles for Technical Actuarial Work" issued by the Financial Reporting Council also applies to this paper and the associated work, and we confirm compliance with this standard where relevant.This paper should be read in conjunction with our formal report on the 31 March 2016 actuarial valuation.

EXPLANATORY NOTES

1. Employer type

Different requirements apply under the Local Government Pension Scheme (LGPS) Regulations, depending on the employer type and whether they are an admission body or if the employer has a right of access to the LGPS (scheme employer).

2. Initial membership summary

This sets out information relating to the initial transferring members as at the date of admission, as provided by the Administering Authority. The initial funding and contribution details are based on this data.

3. Funding details as at inception

The asset and liability details are provisional and will be reassessed at the next full actuarial valuation of the Fund following admission.

An explanation of the terms used in the table is as follows:

Term	Description
Ongoing funding basis	In line with the funding target for the 2016 actuarial valuation but updated for market conditions at the date of admission (further details provided below). In particular, the discount rate has been determined based on the expected return on the Fund assets taking into account the long term strategy set out in the Funding Strategy Statement (FSS). It includes appropriate margins for prudence. The discount rate reflects an assumed real return of 2% per annum above CPI inflation. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund’s overall risk metrics.
Past service liabilities	The value of the accrued benefits for which the employer is responsible.
Assets	The value of the assets which back the employer’s past service liabilities within the Fund.
Surplus / Deficit	The amount of excess or shortfall of assets compared with the past service liabilities.
Funding level	The employer’s assets within the Fund as a percentage of its past service liabilities.
Deficit recovery period	The period over which any funding deficit will be recovered by additional contribution payments.

The financial assumptions used to calculate the figures quoted are in line with the approach adopted for the 2016 actuarial valuation of the Fund, but updated for market conditions at the date of admission or the latest available date when the admission has not yet started. Non-financial assumptions are the same as assumptions adopted for the 2016 valuation. A summary of the main financial assumptions is shown in section 6 of the summary above.

4. Initial contribution requirements

The initial contribution requirements are set out in the table. They have been calculated in line with the long term financial assumptions as at the 2016 actuarial valuation but using an inflation assumption reflecting market conditions at the date the calculations have been carried out. A summary of the main assumptions is shown in section 6 of the summary above. Any costs associated with non-ill health early retirements are payable in addition as notified by the Fund. Contribution requirements will be reviewed at least as frequently as each triennial actuarial valuation, and possibly more frequently as agreed (or otherwise as considered warranted) by the Administering Authority of the Fund.

An explanation of the terms used is provided below:

Average employee contribution rate	The average contribution rate payable by the employer's active members of the Fund. Individual member contribution rates are set by legislation and vary according to members' actual pensionable pay.
Future service employer contribution rate	The initial contribution rate required from the employer to meet the cost of new benefits being accrued. This includes an allowance for ill health retirements and the normal ongoing costs of running the Fund.No allowance has been made for members exercising the 50:50 option.
Open or closed contribution rates	An open contribution rate applies where new employees are allowed to join the Fund. A closed contribution rate is based on the initial membership only.
Deficit lump sum payments	The adjustment that is initially made to the employer's future funding rate in order to eliminate any deficit or surplus identified over the recovery period.
Indexation of deficit lump sum payments	The increases applied to the required deficit lump sum payments on an annual basis over the recovery period.

5. Commercial Considerations

Whilst this paper focuses primarily on the actuarial funding risk factors in relation to the new employer's participation in the Fund, these risks can be materially impacted by the commercial side of the project (if applicable).

Under a standard admission agreement the new employer will be financially responsible for any deficiencies which arise after the start of the admission. The deficiencies can be substantial and may need addressing whilst the contract is ongoing or when it comes to an end, whether on its normal expiry or early termination. However, if a commercial contract is in place, this can serve to leave some or all of the financial risks with the guarantor.

The key consideration in determining whether (and at what level) a bond is required is any underlying contractual arrangement between the guarantor and the new employer in relation to pension costs.

We have not commented on this in detail here but set out below are some of the contractual considerations that the guarantor should take into account when deciding on the level of bond:

– the impact of the cost of any bond requirement or deficit transferred on the contract pricing;

– whether, going forward, the financial impact of any risks identified in this paper on the contribution rate/bond could fall back to the guarantor via the contractual agreement, for example if any cap/collar arrangements apply;

– how the size of the risks compares to the overall size of the contract; and

– the financial standing of the new employer (and in particular, whether the new employer would have sufficient resources to meet any deficit on the normal or early termination of the contract).

If applicable the enclosed Risk Assessment Information Report discusses the issue of "transfer of risk" in some more detail.

6. Accounting for pension liabilities (FRS / IAS19)

The funding details at inception, together with future assessments of the funding position that would be carried out as part of triennial actuarial valuation exercises should not be confused with an assessment under Financial Reporting Standards (FRS) or International Accounting Standard 19 (IAS19).

Where required by an employer, FRS / IAS19 assessments are solely required to meet accounting disclosure requirements, are performed annually and are disclosed in an employer's accounts.

In accordance with the standards, the FRS / IAS19 assessments are determined using a different set of assumptions from the actuarial valuation approach (on which the funding position at inception is based). The funding position at inception under FRS / IAS19 is therefore likely to be different from the position shown in this paper.

More importantly, FRS / IAS19 assessments do not impact on the level of contributions an employer is required to make to the Fund.

Other Information

Copies of the Fund's policy documents and statements are available to the new employer including:

- Pension Administration Strategy (if any in place)
- Communication Policy
- Funding Strategy Statement
- Admissions and Terminations Policy
- Investment Strategy Statement

In addition, the full statutory regulations governing the operation of the LGPS prior to 1 April 2014 are available at http://timeline.lge.gov.uk/ and regulations and guidance relating to LGPS from 1 April 2014 onwards can be found at http://lgpsregs.org/.

The new employer should confirm that it is familiar with its duties and responsibilities as a participating employer in the Fund under the Regulations, and that it accepts and will comply with the Fund's policy statements and procedures as set out in the above documentation, and as may be communicated from time to time.

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