



**LOCAL PENSION BOARD - 26 OCTOBER 2020**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**PENSION SECTION – EMPLOYER RISK**

**Purpose of the Report**

1. To inform the Board of the new Regulations regarding employer risk.

**Background**

2. Pension Fund Officers already monitor employer risk and these were considered at the last Pension Fund Valuation.
3. At the valuation employers were grouped by risk and this was used to determine some factors used in assessing their contributions and deficit recovery repayment terms.
4. The Pension Fund also manages the risk of employers by requiring them to have a bond. In the unlikely event that an employer is unable to make payment of its deficit to the Fund, the Fund can action the bond. The bond will then be paid to the Fund to cover the value required. This acts as a security for the Fund.
5. Officers monitor the bond values and their termination dates and arrange extensions or changes to the bond values, as required.
6. There are five closed Community Admission Bodies (CABs) in the Fund. These tend to be older Fund employers without a guarantor or security, have no remaining active members, but still retain a Fund deficit.
7. At the valuation the CABs were offered opportunity to crystallise their deficit positions and set up repayment plans with the Pension Fund. One CAB chose to do this and is making its repayment contributions. On receipt of the final payment, this employer will then be able to “walk away” from the Fund having fully met its Fund responsibilities.
8. The CABs that did not choose to crystallise their deficit plans will be assessed again at the next valuation.

## **Changes**

9. On the 23 September 2020 new Regulations regarding employer risk came into force. These Regulations are named - Local Government Pension Scheme (Amendment) (Number 2) Regulations.
10. It is useful to note, some of the Regulations changes support what the Fund already does. These Regulations effectively fall into three areas;
  - (i) **Review of employer contributions**
11. Currently officers monitor the risk of the Funds employers. However, the Regulations now require the Fund to have a policy on when a review of employer contributions is necessary (outside of the formal Fund valuation process) and the process the Fund will take in doing so.
12. Officers are aware Central Guidance is due on this specific point from the SAB and CIPFA and this is expected in early 2021.
13. Officers are awaiting the guidance to help determine what situations may trigger a review. Officers work closely with the Actuary at each valuation and assess the employer risks, so the likelihood of the Fund requesting a review of an employer's rate prior to the next valuation is low, unless a major change in risk occurs. Examples of when the Fund may decide to do so, could include; if Government changed funding for Colleges thereby increasing the risk of in this sector, if an employer's security lapsed (e.g. a bond) or if there was material change in payroll following a large exit of active members.
14. The amended Regulations now also give some power to employers to approach the Fund to request a review of their rates. Employers may be keener to request a review of their rates if they thought it was possible to reduce their rates. The Regulations indicate that, while the Fund should consult with the employer on any requests, volatile markets or positive investment performance are not suitable grounds for an interim review. Therefore, in general, an employer would likely only be able to successfully approach the Fund if there had been a material (and positive) change in its financial covenant or operations. For this reason, Officers maintain the position this is not likely to happen. It should also be noted; if an employer did request a review of its employer rate this cost is charged to the employer and not the Fund.
15. Once the guidance is available Officers will consider this and draft a policy within the FSS that will be shared with the Pensions Committee. Employers will then be consulted on the policy, prior to having this approved by Pension Committee. If any employer makes a formal review request in the intervening period, the Fund would consult with the employer and its Actuary on an appropriate course of action.

16. It is important to note; no Leicestershire Fund employers have requested a break or help with payment of their contributions during the Covid-19 financial situation.

**(ii) Spreading exit payments**

17. Officers already allow this to happen in exceptional circumstances and this Regulation change supports this action. Officers will review the Funding Strategy Statement to make this more explicit considering the Regulation change.
18. For example; as mentioned earlier, at the last valuation the Pensions Manager wrote to some of the higher risk employers (closed Community Admission Bodies) asking them if they wished to crystallise their deficit at the valuation and set up an agreed repayment plan. One of the employers chose to do so, with payments to be completed in this valuation cycle.

**(iii) Deferred Debt Agreements (DDA)**

19. This introduces a new “deferred employer status” and deferred debt agreements for exiting employers. This formally allows Secondary contributions to be certified for employers with no active members who have not paid their cessation termination value in full. The Regulation allows the Secondary contributions to be subject to review at formal Fund valuations and the DDA must set out the period over which the arrangement will run. This offers similar employer flexibilities to spreading exit payments. However, the key difference is that the employer remains invested within the Fund and its funding position will ultimately change at subsequent valuations – which may positively or negatively affect the employer. Given the level of prudence established in all funding plans, the expectation is that this arrangement would benefit the employer through positive investment performance and the ability to wind down some of its liabilities over time.
20. Continuing the above example; closed employers who chose not to crystallise their deficits at the last valuation will now require a DDA. Effectively the Fund already allows this, but the review and updates to the FSS will make this more explicit.

**Recommendation**

21. It is recommended that the Board notes the Employer Risk Regulation Changes.

**Equality and Human Rights Implications**

None specific

**Officer to Contact**

Ian Howe  
Pensions Manager  
Telephone: (0116) 305 6945  
Email: Ian.Howe@leics.gov.uk

Declan Keegan  
Assistant Director of Strategic Finance and Property  
Telephone: (0116) 305 6199  
Email: Declan.Keegan@leics.gov.uk