

ABERDEEN CITY COUNCIL

COMMITTEE:	PENSIONS COMMITTEE
DATE:	2 nd DECEMBER 2016
REPORT BY:	HEAD OF FINANCE
TITLE OF REPORT:	RISK – EMPLOYER COVENANT
REPORT NUMBER:	PC/DEC16/COV

1. PURPOSE OF REPORT

To make the Pensions Committee aware of the ongoing work being undertaken by the Employer Relationship Team to reduce the potential risk to the Fund posed by Employers who are unable to meet the financial requirements of participation within the LGPS.

2. RECOMMENDATION(S)

- i. To note the report

3. FINANCIAL IMPLICATIONS

Any orphaned liabilities held within the Fund are the responsibility of all of the active participating Employers. High levels of orphaned liabilities pose a risk to the overall funding position and ultimately increase the contribution requirements for Employers.

4. SERVICE & COMMUNITY IMPACT

Admission Bodies within the Fund all provide essential services to the communities of Aberdeen, Aberdeenshire, Moray, and other areas. For those bodies that have a weak covenant or are unable to meet the costs of exiting the scheme there is always the possibility of these organisations having to cease trading as a result of their liabilities within the scheme. This will not only have a negative impact on the community but also reflect badly on the Fund and the Administering Authority.

5. REPORT

5.1 Background

- 5.1.1 Over recent years The Pensions Regulator (tPR) has put greater emphasis on ensuring that participating Employers are able to meet both the legal

and financial obligations of the Local Government Pension Scheme (Employer covenant)

Although it is not possible to fully mitigate the risk posed by Employers not being able to meet either their pension contribution commitments or the unfunded liabilities held within the Fund upon exit, Funds are required to manage this risk through the active monitoring of Employer covenants.

- 5.1.2 Following the Triennial valuation in 2011 the North East Scotland Pension Fund (NESPF) developed a policy for assessing Employer covenants. The NESPF policy was developed in conjunction with the scheme actuary and was embedded within the NESPF Funding Strategy Statement after consultation with Employers.

5.2 Implementation of the Employer Covenant Assessment Policy

- 5.2.1 All active Employers within the NESPF have been ranked as either high, medium or low risk based on their membership profile, funding position and the presence of a guarantor or bond.

High risk Employers tend to be the community admission bodies that were granted admission before 2010 and have a decreasing active membership. Traditionally these Employers were taken into the scheme with no guarantor or bond in place.

- 5.2.2 All high risk Employers were contacted by the Fund in November 2014 and again in late 2015 to prompt discussions regarding their funding positions and the implications of eventual exit from the scheme.

The aim of these discussions was to provide a high level of transparency regarding all aspects of Employer responsibilities and a greater awareness of the implications of participating in a defined benefits scheme in the current financial climate.

As a result of these discussions seven different participating Employers approached Aberdeen City Council with a request to act as guarantor for their admission agreements. Following approval by the Finance, Policy and Resources Committee the NESPF have secured guarantees for each of these previously high risk Employers, considerably reducing the risk to the Fund.

- 5.2.3 A Bond review has been carried out to ensure that both the cash and indemnity bonds that are already in place are sufficient to meet the unfunded liabilities held within the Fund for those Employers.
- 5.2.4 In September 2015 the Fund invested in the Funding Service Monitor (FSM Pro) provided by our scheme actuary Mercer. This system allows us to view the funding position for the whole Fund as well as for each individual Employer on a daily basis. In addition it allows us to provide information to our Employers on funding as well as estimates for current liabilities and

potential termination costs. This can all be provided at no additional cost to the Fund or the Employers.

- 5.2.5 All new admitted bodies are required to have a scheme Employer act as guarantor (for a transferee admission body) or an appropriate bond put in place before admission is granted to the scheme.

5.3 Future requirements

- 5.3.1 Although the Fund has started to implement the Employer Covenant Assessment Policy further work needs to be undertaken to ensure that the Fund is fully meeting The Pension Regulator requirements on this matter.

- 5.3.2 Due to the deterioration of the funding position since the 2014 triennial valuation the NESPF have requested the scheme actuary, Mercer, to carry out an interim valuation as at 31 March 2016.

The results of the interim valuation, which are detailed in a separate report, will form the basis for the full implementation of the Employer Covenant Assessment Policy prior to the triennial valuation which will take place on 31 March 2017.

The Employer Relationship Team will meet with all Employers individually between receiving the interim results and the completion of the 2017 valuation.

- 5.3.3 The Fund will continue to investigate the possibility of obtaining guarantors for those admitted bodies who provide services for Aberdeen City Council, Aberdeenshire Council and Moray Council.
- 5.3.4 The Scheme Advisory Board is currently undertaking a review of the LGPS (Scotland) Regulations in respect of terminations. From this they will develop a good practice guide which may impact on the monitoring of employers in future.

6. BACKGROUND PAPERS

NESPF Funding Strategy Statement (Appendix 4, Employer Engagement – Risk and assessment of employer covenant)

7. REPORT AUTHOR DETAILS

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