Item 5

CT/13/16
Investment & Pension Fund Committee
1st March 2013

Funding Agreements for Admitted Bodies

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendations:

That the committee approves the use of side agreements to permit on-going funding streams for admitted bodies with no active members.

1. Introduction

1.1 An admitted body employer has approached officers on what the fund's stance is on the use of side agreements on the closure of an admission agreement. Side agreements are becoming more prevalent as a means of funding admitted bodies with no remaining active members.

1.2 Admitted Bodies are employers in the fund who have been admitted by application to the Pension and Investment Committee and who have an admission agreement in place. The admission agreement stipulates the requirement for the employer to abide by the Local Government Pension Scheme regulations including the funding requirements as determined by the fund actuary. This admission agreement remains in place until either the last active member leaves the pension fund or either party to the admission agreement serves notice to terminate the agreement.

1.3 It is a requirement of the Local Government Pension Scheme (Administration) Regulations for the fund actuary to carry out a closure valuation when an admission agreement ceases.

2. Closure Valuations

2.1 There are a number of varying assumptions that the actuary can use when undertaking the closure valuation. Which assumptions are used depends upon what will happen to the underlying pension liabilities and/or continued funding of those liabilities.

2.2 If the liabilities are to remain in the given admitted bodies 'pot' in the fund, the actuary will use a discount rate based on bonds which will typically give rise to large deficits on closure due to the much harsher assumptions. This is the actuary's best guess to ensure that there is enough money in the 'pot' to cover all the liabilities. If the assumptions are not borne out, other employers in the fund will subsidise the admitted body.

2.3 If the liabilities are being transferred to another employer in the fund perhaps under a new admission agreement or as part of a guarantee or pass through arrangement, the assumptions used on closure are similar to those used at the normal scheme valuation process in recognition that regular contributions will continue to be paid into the fund.

3. Side Agreements

3.1 Where pension liabilities are to remain in the admitted body ‘pot’ on closure, the outgoing employer is typically faced with a large deficit figure that must be paid in full immediately. This is due to the admission agreement terminating and there being no legal mechanism for the fund to accept on-going contributions.

3.2 A side agreement is a legal agreement between the fund and the employer that stipulates that the employer shall pay into the fund any contributions as determined by the fund actuary and therefore replaces the admission agreement in respect of employer contributions. This enables the closure valuation to be based on the on-going basis and avoids large, up front deficit payments. The side agreement and corresponding contributions will be in place whilst pension liabilities remain in that part of the fund and would eliminate the risk of cross employer subsidy.

3.3 Whilst the side agreement is in place, there is a risk that the employer could cease to exist leaving the fund exposed to any remaining deficit. This risk can be mitigated by ensuring that a bond or guarantee for an appropriate amount is in place and regularly reviewed. Therefore the risk to the fund is minimised.

Mary Davis
County Treasurer

Electoral Divisions: All

<u>Local Government Act 1972</u>

<u>List of Background Papers - Nil</u>

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