

# Wiltshire Pension Fund

Employer covenant reviews and  
process of managing new and  
ceasing employers

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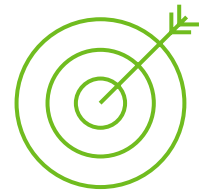
# What we will cover today

- 1 Why monitor/review employer covenant?
- 2 When and how should we monitor/review covenant?
- 3 How can covenant be reflected in contribution rates?
- 4 Managing new employers
- 5 Managing ceasing employers

# 1. Why monitor/review employer covenant?

# Risk management

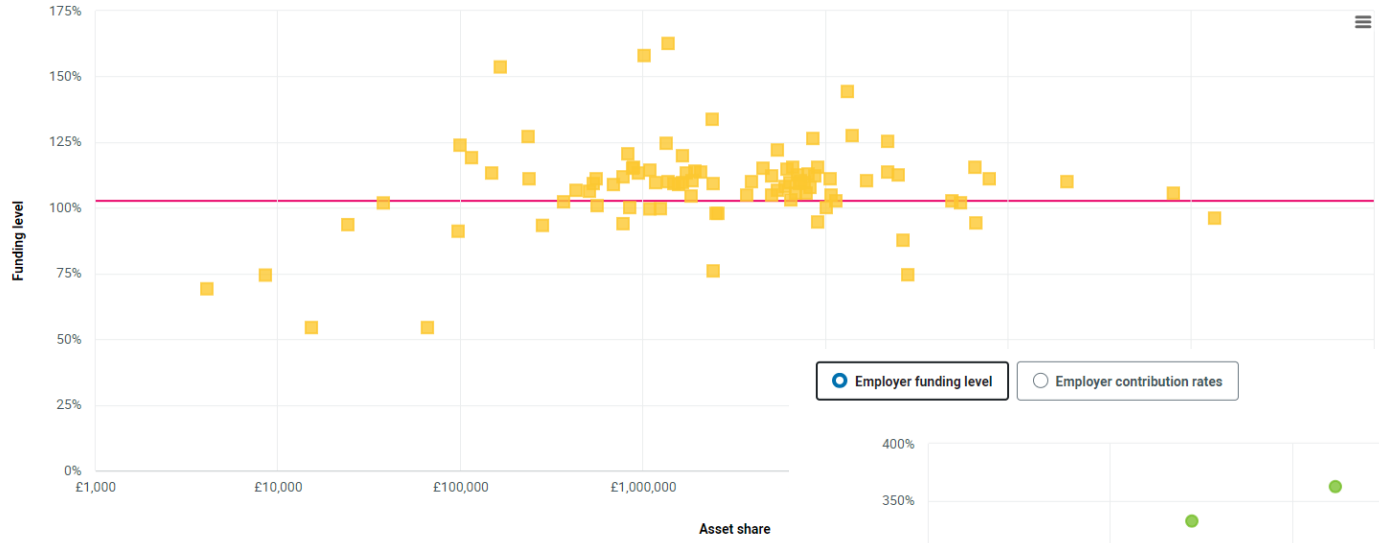
- Increasingly diverse employer base from Councils to Catering/Cleaning contractors
- Ensure appropriate funding strategy for each employer
- Protect employers from another employer defaulting



# Variety of employers and funding positions

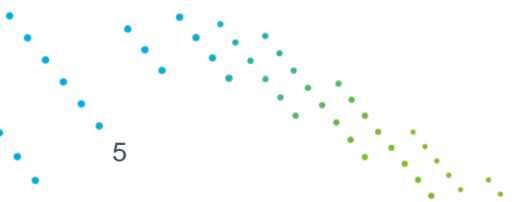
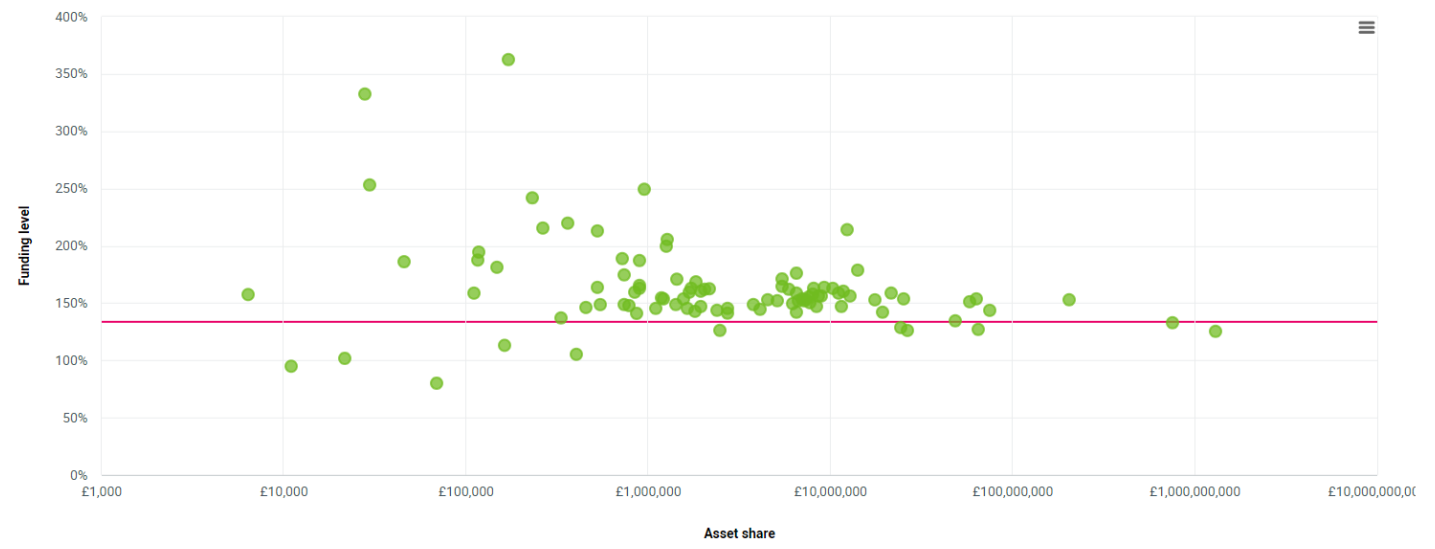
Employer funding level  Employer contribution rates

Employer type All types



Employer funding level  Employer contribution rates

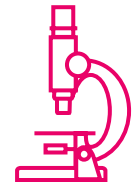
Employer type All types



## 2. When and how should we monitor/review covenant?

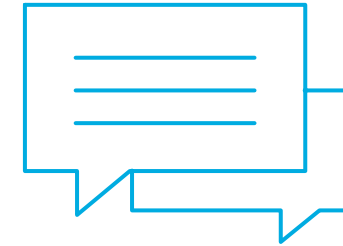
# Regular review and monitoring

- Review at each triennial valuation
  - Can be light touch for low risk employers (e.g. Tax-raising bodies, academies)
  - More in depth for higher risk employers (e.g. Charities and small contractors)
  - Bond reviews carried out at least every three years
- Additional monitoring in between valuations
  - Where triennial review indicated an issue
  - Where circumstances have changed since last triennial review (e.g. funding level or employer-specific circumstances)
  - Where employer approaching exit/cessation



# Reviewing covenant

- Questionnaires completed by employers
- Structural metrics
  - Type of employer
  - Significant membership movements likely
  - Likely time to cessation (as only a few active members or nearing end of contract)
- Financial metrics
  - Profit and loss, balance sheet, net cashflow
  - Employer's size compared with pension fund obligation
  - Contribution payment history to pension fund
  - Guarantor status
  - Any other security in place
- Independent credit ratings/scores
- Full independent covenant analysis (if necessary)



Officers in process of putting in place covenant review policy



3. How can covenant be reflected in contribution rates?

# Funding strategy

- Three main elements to calculating contribution rates
- Funding target - depends largely on guarantor/employer circumstances
- Required likelihood of success - depends largely on covenant
- Time horizon – depends on employer-specific circumstances

## 2.2 The contribution rate calculation

Table 1: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	Local authorities, police, fire, town and parish councils	Colleges & universities	Academies	Open to new entrants	Closed to new entrants	(all)
Funding target*	Ongoing (assuming long term Fund participation)	Ongoing (assuming long term Fund participation)	Ongoing (assuming long term Fund participation)	Ongoing, but may move to low-risk exit basis		Contractor exit basis, assuming fixed-term contract in the fund**
Likelihood of success	Target 75% but range of 60-80% depending on valuation results & employer circumstances	Target 75% but range of 60-80% depending on valuation results & employer circumstances	Target 75% but range of 60-80% depending on valuation results & employer circumstances	Target 75% but range of 60-80% depending on valuation results & employer circumstances	Target 75% but range of 60-80% depending on valuation results & employer circumstances	Target 75% but range of 60-80% depending on valuation results & employer circumstances
Maximum time horizon	20 years	14 years	14 years	14 years	14 years	Same as the letting employer

# Contribution rate reviews

- The Administering Authority can review an employer's contribution rate between triennial valuations in certain circumstances including if:

*“it appears likely to the administering authority that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security)”*

## 4. Managing new employers

# New employers

- New employer policy in place (reviewed least every three years)
- Eligibility and Regulatory position established
- Covenant and security arrangements assessed
- Funding approach determined
- Opening position calculated alongside appropriate contribution rate and security/bond requirement



## Wiltshire Pension Fund – New employer policy

### **1. Introduction**

This policy sets out the Wiltshire Pension Fund's (the Fund) approach for accepting new employers into the Fund. It covers both employer eligibility as well as the Fund's approach to the financial set up of the new employer (such as the starting funding level). It applies independently from any risk-sharing agreed bilaterally between an existing Scheme Employer and a new employer although the Fund will take these into account when setting up a new employer, if made aware of such arrangements.

It has been prepared by the Administering Authority, with input from the Fund's Actuary, Hymans Robertson LLP. This policy relates to the admission of all new employers from the effective date of this policy.

The main purpose of this policy is to provide transparency and to help the Fund ensure its approach to admitting new employers is consistent, compliant with legislation and it aims to minimise the risk of a new employer bringing inappropriate levels of risk to other employers in the Fund.

### **2. Terminology**

The following terms all have the same meaning as defined in the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations"), as amended from time to time: scheme employer, administering authority, active member & deferred member.

Wiltshire Pension Fund New Employer Policy – June 2023

## 5. Managing ceasing employers

# Ceasing employers

- Cessation policy in place (reviewed at least every three years)
- Regulations followed
- Cessation position established including basis employer should cease on (Ongoing or Low-risk depending on guarantor status)
- Flexibility on payment of pension debt
- Exit credit policy in place in case of surplus position

## CESSATION POLICY

### 1. Introduction

This is the policy of Wiltshire Pension Fund ("the Fund") as regards the treatment of employers on termination of their participation in the Fund. It covers the methodology for calculation and payment of any deficit or refund of surplus on leaving the Fund (via a "cessation valuation"). It applies independently from any risk-sharing which has been agreed bilaterally between one Scheme Employer and another exiting Scheme Employer.

It has been prepared by the Administering Authority, with input from the Fund's Actuary, Hymans Robertson LLP. This policy relates to all employers in the Fund.

This policy replaces all previous policies on employer termination and is effective from 17 November 2022.

This policy applies to all past, current and future employers participating in the Fund. In exceptional circumstances, the Fund reserves the right to differ from the contents of this policy if the particular circumstances of an Exiting Employer mean that the application of this policy is not appropriate or goes against the spirit of the principles applied here.

### 2. Terminology

The following terms all have the same meaning as defined in the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations"), as amended from time to time: Scheme Employer, Administering Authority, Deferred Debt Agreement, Deferred Employer status, Exiting Employer, Exit Credit, Exit Date, Rates and Adjustment Certificate and Related Employer.

### 3. Regulatory framework

The 2013 Regulations outline the general framework for employees and employers participating in the Local Government Pension Scheme in England and Wales. The regulations that are most relevant to employers leaving the Fund are as follows;

- Regulation 64 (2) – where an employer ceases to be a Scheme Employer, the Administering Authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the Exit Date. Furthermore, it requires the Rates and Adjustments Certificate to be amended to show the Exit Payment due from the exiting employer or the Exit Credit due to the exiting employer.
- Regulation 64 (2A) & (2B) – the Administering Authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more. Regulation 64 (2ZAB) & (2ZC) – the Administering Authority is given discretion on the level, if any, of Exit Credit made to an Exiting Employer subject to certain considerations and it is required to notify the relevant parties of its pending determination within 6 months of the date of cessation (or a longer timeframe if agreed)
- Regulation 64 (3) – in instances where an exit payment is due but it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or a guarantor, the contribution rate(s) for the appropriate Scheme Employer or remaining Fund employers may be amended.

Thank you

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