

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE

17 December 2020

Employer Cessation Policy

Purpose of the Report

1. The purpose of this report is to present to Wiltshire Pension Fund Committee an updated Employer Cessation Policy. The Committee is asked to consider and approve the proposed policy (see Appendix).

Background

2. The Fund has had a cessation policy in place for a number of years and the current version was approved on 24 March 2020, following Regulatory changes which came into force on 20 March 2020 (with backdated effect to 14 May 2018). Those changes meant that the Fund now has some discretion over whether to make a complete, partial or nil payment out of any cessation surpluses ('Exit Credits') to employers ceasing participation in the Fund, after consideration of the circumstances involved.
3. On 23 September 2020, further regulatory changes came into force which now allows, or formalises, greater flexibility on how Funds approach collecting employer cessation deficit payments.
4. On the 2 December 2020, the Scheme Advisory Board published a consultation guidance on how these regulatory changes could be implemented (plus on another area of change not covered by this policy). There is no requirement to strictly follow this guidance although the guidance has been published to provide assistance to administering authorities. Officers have taken the guidance into account in producing this policy and also the opinions of the Fund actuary on the guidance.

Considerations for the Committee

5. The Fund's revised policy aims to bring it up to date with legislation. Furthermore, minor adjustments to the recently agreed Funding Strategy Statement will also be needed.
6. The key regulatory changes* are:
 - The introduction of a new 'deferred employer status' where the employer can enter into a Deferred Debt Agreement (DDA) with the Fund.
 - Clarification that cessation debt can be spread and paid by an employer over a period of years.

*Note in the existing policy the Fund already operated a form of these approaches which it has now been altered to bring it into line with legislation and the SAB guidance.

7. At the moment, when an employer ceases, any deficit is 'crystallised' at that date and thereafter due as a lump sum or spread over a period of time. A DDA allows the employer to partially cease (have no active members) but to remain 'on risk', with varying assets and liabilities, and a contribution rate set and reviewed triennially to bring the deficit amount down until such time as the Fund is able to crystallise and pay the remaining debt.

8. The Fund's approach to these changes are outlined in sections 7 and 9 of the policy. Whilst this sets out the Fund's standard approach, the policy is drafted to allow for flexibility should a particular set of circumstances require it. In the interests of transparency, officers have sought to set out its approach to decision making in this respect in a clear and detailed way.
9. In addition, officers have also used the opportunity to allow some great flexibility in respect of the use of employer covenants. In particular, to allow the option of using an employer's strong financial position as an alternative to requiring a financial security or charge on assets.
10. The new policy aims to bring the policy up to date with legislation. Furthermore, minor adjustments to the recently agreed Funding Strategy Statement will also be needed.
11. This policy has been produced in consultation with the actuary, Hymans-Robertson LLP as the policy contains certain actions the actuary would be required to undertake.

Environmental Impact of the Proposal

12. There are no known environment implications from this report.

Financial Considerations & Risk Assessment

13. In general, as the changes proposed provide greater flexibility to the Fund and employers, it should reduce the risk to employers and the Fund of a cessation debt leading to financial hardship or insolvency of the employer.

Legal Implications

14. There is no legal requirement to produce a cessation policy, but the application of a policy reduces the risk of significant legal costs needing to be incurred upon cessation.

Safeguarding Considerations/Public Health Implications/Equalities Impact

15. There are no known implications at this time.

Reasons for Proposal

16. To offer greater flexibility to employers and Fund on how it deals with cessation arrangements.

Proposal

17. The Committee is asked to approve this policy subject to a consultation with employers being undertaken shortly after this meeting and no material issues being raised as part of the consultation process.

ANDY CUNNINGHAM
Head of Pensions Administration and Relations

Report Authors: Andy Cunningham, Head of Pensions Administration and Relations

Unpublished documents relied upon in the production of this report: NONE