

WILTSHIRE COUNCIL

WILTSHIRE LOCAL PENSION BOARD

10 August 2023

Cessation Policy and New Employer Policy

Purpose of the Report

1. The purpose of this report is to present to Wiltshire Local Pension Board an updated Cessation Policy and New Employer Policy. The Board is asked to consider and approve the proposed policy (see Appendices).

Background

2. The Fund has had a cessation policy in place for a number of years and the current version was approved on 14th December 2022, following consideration of the cessation calculation methodology.
3. The Fund has had a New Employer Policy in place for a number of years and the current version was approved on 16th July 2020.
4. On appointment of the Fund's new Employer Funding and Risk Lead on 1st June 2023, the current Cessation Policy and New Employer Policy were reviewed to ensure that they are still relevant, meeting current regulation requirements and best practice.
5. Whilst working on a recent Debt Spreading Arrangement (DSA) with a Fund employer, it was identified that the interest rate being charged for late payments, as per the Cessation Policy agreed in 2022, was not in line with current legislation.
6. In 2022, as part of the valuation process and regulatory requirements, the Funding Strategy Statement was approved. The Funding Strategy Statement sets out how money will be collected from employers to meet the Fund's obligations to pay members' benefits. The New Employer Policy review incorporates the latest approach to contribution rate setting, as set out in the 2022 Funding Strategy Statement.
7. The Department for Education (DfE) in May 2023 released a policy paper confirming that where an employer, that is covered by the DfE Local Government Pension Scheme Guarantee, outsources services to an admitted body, there is now no need for the admitted body to obtain a bond. The New Employer Policy review incorporates this revision to the scope of the DfE Local Government Pension Scheme Guarantee.
8. Officers have consulted with Fund employers on the revisions to the Cessation Policy, with the consultation opening on 14th June 2023 and ending on 10th July 2023. Views were also sought at the Employer Strategic Focus Group on 10th July 2023. No feedback was received relating specifically to the Cessation Policy. No consultation took place on the revisions to the New Employer Policy as these were considered immaterial or relatively minor changes.
9. The Pension Committee on 13th July 2023 approved in principle the revised Cessation Policy and New Employer Policy subject to review by the Local Pension Board.

Considerations for the Board

10. The Fund's revised policies aim to bring them up to date with legislation, the Funding Strategy Statement and best practice.

11. The key changes to the Cessation Policy are:

1. Introduction – the effective date has been changed to include the last review date

4. Policy reviews – change in contact details for the responsible Fund officer

6. Calculation Basis for cessation events – added the likelihood of success corridor of 90% to 95% to sub section 6.2(a), as per approval at the November 2022 Pension Committee

7. Payment of any crystallised deficit – change in interest rate for the late payment of deficit payment, from base rate plus 5% per annum to 1% above base rate in accordance with Regulation 71(4). A sentence has also been added regarding payments for employers with no guarantee and who are outside of the corridor

8.4 Disputes – new section introducing an appeal and adjudication provision

9. Deferred Debt Agreement (DDA): Non-crystallisation of cessation debt calculation –

- original section 9 (7) removed, which referred to the alternative employer investment strategy and following points/sections moved up accordingly
- Addition of section 9 (13) to clarify that is the Fund with legal advice, who is responsible for drafting the DDA

11. Related policies – reference made to the Funding Strategy Statement (FSS)

12. The key changes are to the New Employer Policy are:

4. Policy review – change in contact details for the responsible Fund officer

5.1 Overview of approaches to funding – the clarity, the relevant regulation has been added to the note in sub-section b)

6. Covenant and Security arrangements – added a statement regarding the updated DfE policy for admitted bodies no longer requiring a bond, if the letting employer is covered by the DfE Local Government Pension Scheme Guarantee.

7.4 Memorandum of understanding (MOU) – expanded to confirm a Data Sharing Agreement will be put in place for outsources HR and payroll providers.

Appendix: Summary of admission policies by employer – under the admitted bodies section, now aligned to the Funding Strategy Statement regarding the standard approach to contribution rate setting i.e. 75% likelihood of primary contribution rate being sufficient to remain fully funded over the timeframe used for the letting employer (usually 14/20 years). The ill health sub-section a) has also been updated to reflect the current treatment of ill health strain costs.

Environmental Impact of the Proposal

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

Financial Considerations & Risk Assessment

14. In general, the changes proposed reduce the risk to employers and the Fund, both financially and reputationally, by abiding to current legislation and best practice.

Legal Implications

15. There is no legal requirement to produce a Cessation Policy and New Employer Policy, but the application of these policies reduces the risk of significant legal costs needing to be incurred upon cessation and reduces the risk of challenges on the approach used when an employer is admitted to the Fund. The Fund will also comply with current legislation with regard to the charging of interest for late payments and in regard to the New Employer Policy, will also comply with current legislation and best practice.

Safeguarding Considerations/Public Health Implications/Equalities Impact

16. There are no known implications at this time.

Reasons for Proposal

17. To ensure that the Fund's Cessation Policy and New Employer Policy are still relevant, meeting current regulation requirements and best practice.

Proposal

18. The Board is asked to approve the revised Cessation Policy and New Employer Policy, and seeks from Officers such clarifications or further information as they require.

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