

WILTSHIRE PENSION FUND COMMITTEE
25 May 2006

ADMITTED BODIES POOL AND CESSATION VALUATIONS

Purpose of Report

1. The purpose of this report is to update Members on the final results of the review of the Admitted Bodies Pool.

Background

2. This Committee received an update on progress in relation to the break-up of the Admitted Bodies Pool at its meeting on 21 November 2005. The Pool had existed for many years to try to smooth the contribution rates of smaller employers, but in this age of transparency it is no longer appropriate.
3. The issue was that the 7 employers within the Pool shared a common contribution rate, but their underlying liability values and profiles are quite different. This meant that some of them had not been paying enough employers' contributions and some had been paying too much relative to the objective of a 14 year recovery period. Put another way, their real deficit recovery periods varied between 4 and 79 years!
4. Work has been on-going with Hymans Robertson over an 18 month period to identify the correct liabilities and assets (ie. investments) that should be allocated to each of the 7 employers within the Pool. From this the Actuary had been able to calculate the "correct" contribution rate for each employer that would lead to a 14 year deficit recovery period.
5. When I reported last November, the final results of the review had just been received from Hymans Robertson.

Main Considerations

6. In accordance with the discretion that the Committee had given me to negotiate the introduction of the new rates with the employers, I am pleased to report that these have now been successfully concluded. The Appendix shows the rates that have been agreed with each employer and the status of that agreement.
7. Three of the seven employers in the Pool have taken their full increase or decrease in contributions immediately.
8. For two others I have negotiated a stepping in of contributions, which for Rethink is over 6 years, which is the maximum period that the actuary recommended. The other employer, Wiltshire Heritage Museum, are unlikely to have any active (contributing) employees in the Fund beyond September 2007, so I have negotiated contribution rates with them for 2006-07 and 2007-08 based on rates that would apply to 6 year phasing.

At that point it will be necessary to negotiate a cessation valuation with Wiltshire Heritage Museum.

9. Members will note from the Appendix that cessation valuations and negotiations are also commencing with the other two ex-Admitted Body Pool employers who no longer have any active (contributing) members in the Fund, United Response and Action for Blind People.
10. The Wiltshire Fund has never dealt with a cessation valuation before. To get three (potentially) shows the changing nature of local government pension funds, with smaller employers who may have been in the funds for decades now unable to afford their continued membership and employers that have joined more recently as a result of outsourcing coming to the end of their contracts.
11. I would ask that the Committee delegate to me the authority to conclude cessation terms with departing employers so long as there is no undue risk left with the Fund and the continuing employers within it. In these circumstances I would clearly want to seek the Committee's view.

Environmental Impact of the Proposals

12. There are none.

Financial Implications

13. There should be no direct financial implications for the Fund as a result of the break-up of the Pool. The implications of any of the potential cessations that have been mentioned are not yet known.

Risk Assessment

14. The risk arising from any cessation of an employer from the Fund is if the cessation settlement is not large enough to cover the existing deficit and future liabilities in respect of that employer. The value of the future liabilities is obviously a matter of judgement and it is the actuary's job, in consultation with the Administering Authority, to ensure that the employer pays the Fund sufficient to cover future risk (eg. longevity, investment, regulatory) based on reasonable assumptions.
15. A particular difficulty would arise if such a cessation figure was unaffordable to the employer, even if it were agreed to spread the cost over a number of years. The danger is that, by enforcing the recovery of the cessation amount, that the employer is pushed into insolvency so that very little is recovered. As with most risk judgements, a correct balance needs to be struck.

Reason for Proposals

16. To avoid the need to involve the Committee in routine employer cessations from the Fund which do not leave a residual risk with the Fund.

Proposal

17. The Committee is asked to:

- a) note the successful conclusion of negotiations with employers in relation to the break-up of the Admitted Body Pool;
- b) note that there are two employer cessations from the Fund already underway and that a third one is likely in 2007; and
- c) delegate to the County Treasurer the authority to conclude cessation negotiations with employers so long as there is no undue residual risk left with the Fund.

MIKE PRINCE
County Treasurer

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

7/2007/PEN/DB

APPENDIX

WILTSHIRE PENSION FUND

FINAL CONTRIBUTION RATES AGREED WITH EX-ADMITTED BODY POOL EMPLOYERS FROM 1 APRIL 2006

	2006-07		2007-08		2008-09 onwards	
	Future Service Rate	Past Service Rate	Future Service Rate	Past Service Rate	Future Service Rate	Past Service Rate
Community First	13.70%	£13,100	13.70%	2006-07 + 4.4%	Same principle as 2007-08 but subject to 2007 Valuation	
Salisbury & South Wiltshire Museum	16.10%	£11,200	16.10%	2006-07 + 4.4%	Same principle as 2007-08 but subject to 2007 Valuation	
Wiltshire Heritage/Devizes Museum	9.60%	£6,700	9.60%	£9,300	Terms of Cessation to be negotiated at time of 2007 Valuation results	
Wiltshire & Swindon Community Foundation	16.00%	£11,500	16.00%	2006-07 + 4.4%	Same principle as 2007-08 but subject to 2007 valuation	
United Response	Has no Active Members and a cessation valuation/negotiation is under way					
Rethink/NSF	13.30%	£3,200	13.30%	£3,900	13.30%	£4,600 & rising by around £800 p.a. thereafter
					Subject to 2007 Valuation	
Action for Blind People	Has no Active Members beyond 1 April 2006 and a cessation valuation and negotiation is under way					