

# Shropshire County Pension Fund

## Policy on Termination Funding for Admission Bodies (“Termination Funding Policy”)

### 1 Introduction

- 1.1 This document details the Shropshire County Pension Fund’s (SCPF) policy on admissions into the Fund, the methodology for assessment of a termination payment on the cessation of an admission body’s participation in the SCPF, and considerations for current admission bodies. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS).
- 1.2 Admission bodies are required to have an “admission agreement” with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.
- 1.3 A list of all current admission bodies participating in the SCPF is attached as an Appendix to this document. This appendix is kept as a live document and will be updated as new bodies are admitted to the SCPF.

### 2 Principles

#### Termination of an admission agreement

- 2.1 When an admission agreement comes to its end, or is prematurely terminated for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.
- 2.2 In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members.
- 2.3 In the event that unfunded liabilities arise that cannot be recovered from the admission body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.
- 2.4 The SCPF’s policy is that a termination assessment will be made based on a least risk funding basis, **unless** the admission body has a guarantor within the Fund or a successor body exists to take over the admission body’s liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the admitted body’s liabilities will become “orphan liabilities” within the Fund, and there will be no recourse to the admission body if a shortfall emerges in the future (after the admission has terminated).

- 2.5 If, instead, the admission body has a guarantor within the Fund or a successor body exists to take over the admission body's liabilities, the SCPF's policy is that the valuation funding basis will be used for the termination assessment. The guarantor or successor body will then, following any termination payment made, subsume the assets and liabilities of the admission body within the Fund (sometimes known as the "novation" of the admission agreement). This may, if agreed by the successor body, include the novation to the successor of any funding deficit on closure, in place of a termination payment being required of the admission body itself.

### **Funding basis**

- 2.6 An admission body may choose to pre-fund for termination i.e. to amend their funding approach to a least risk methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the least risk basis.
- 2.7 For any admission bodies funding on such a least risk strategy a notional investment strategy will be assumed as a match to the liabilities. In particular the admission body's notional asset share of the Fund will be credited with an investment return in line with the least risk funding assumptions adopted rather than the actual (largely equity related) investment return generated by the actual asset portfolio of the Fund. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

### **Administering Authority options**

- 2.8 In order to protect other Fund employers, when considering applications for admission body status where there is no guarantor within the Fund, the Administering Authority can determine that:
- The admission body must pre-fund for termination with contribution requirements assessed using the least risk methodology and assumptions; and/or
  - The admission body must have a bond or indemnity from an appropriate third party in place. The actuary to the SCPF will be asked to carry out a risk assessment with the level of any bond requirement being determined by the Administering Authority; or
  - The admission body's application may be refused.
- 2.9 Some aspects that the Administering Authority may consider when deciding whether to apply any of the options under 2.8 above, in the absence of a guarantor, are:
- Uncertainty over the security of the organisation's funding sources e.g. the admission body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;

- If the admission body has an expected limited lifespan of participation in the Fund;
- The average age of employees to be admitted and whether the admission is closed to new joiners.

### **3 Implementation**

#### **New admissions (process commenced after 01/07/2012)**

- 3.1 With effect from 01/07/2012 the SCPF will apply the above principles to the admission of new bodies into the Fund and to the methodology for assessment of a termination payment on the cessation of such an admission body's participation in the SCPF.

#### **Transferee admission bodies (TABs)**

- 3.2 Transferee admission bodies generally will have a guarantor since the Regulations require that, in the event of any unfunded liabilities on the termination of the admission, the contribution rate for the relevant Scheme Employer should be revised. Accordingly, in general, the least risk approach to funding and termination will not apply for TABs.
- 3.3 On termination of a TAB admission, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer.
- 3.4 The Scheme Employer is required to carry out an assessment of the level of risk on premature termination of the contract. This assessment would normally be based on advice in the form of a "risk assessment report" provided by the actuary to the SCPF. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the SCPF the decision over the level (if any) of any bond requirement for the transferee admission body is the responsibility of the Scheme Employer.
- 3.5 Deficit recovery periods for TABs will be set in line with the Fund's general policy as set out in the FSS.
- 3.6 An exception to the above policy applies if the guarantor is not a participating employer within the SCPF, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the SCPF the Administering Authority may in this case treat the admission body as if it has no guarantor.

#### **Community admission bodies (CABs)**

- 3.7 At present under the regulations, there is no **requirement** to carry out an assessment of the level of risk on termination of the admission agreement for a CAB. The Administering Authority may nevertheless decide to carry out such a risk assessment where appropriate.

- 3.8 The SCPF's policy is to consider applications on a case-by-case basis, in line with the principles set out above. In general, no CAB will be permitted to join the SCPF without having a guarantor body. If a guarantor (of sufficient standing acceptable to the Fund) is not forthcoming the admission will either not be approved, the admission body will be required to pre-fund for termination with contribution requirements assessed using a least risk methodology and assumptions, or the actuary may be asked to carry out a risk assessment with any bond requirement being determined by the Administering Authority. If required, any bond amount will be subject to review on a regular basis.
- 3.9 Deficit recovery periods will be determined consistent with the policy set out in the FSS. Alternatively, the Administering Authority may determine an employer specific deficit recovery period will apply.

#### **Existing admissions (admitted prior to 01/07/2012)**

- 3.10 A review of all current admission bodies participating in the SCPF has been conducted with the relevant details documented in the attached Appendix.
- 3.11 The SCPF policy is that these existing admissions will be notionally "ring-fenced" with the valuation funding basis used for the termination assessment and calculation of ongoing contribution requirements. In the event that unfunded liabilities arise that cannot be recovered from the admission body at termination and in the absence of a guarantor or successor body, these will fall to be met by the Fund as a whole.

#### **Notification of Termination**

- 3.12 In many cases, termination of the admission is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued. In this case admission bodies are requested to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of the admission. Effectively, this will be achieved by "locking in" to financial conditions for the termination prior to that date, and the hypothecation of a notionally matched investment strategy for the period to termination. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

Appendix

Employer Number	Employer Name	Date of Admission	Type of Admission Body	Guarantor	Funding Strategy	Open or closed to new employees	Deficit Recovery period (Years)	Deficit Current Bond Amount	Date Bond Last Reviewed	Frequency of Bond Review
00428	West Mercia Supplies	01/04/1999	Community	Shropshire Council	Existing Valuation Basis	Closed	25	n/a	n/a	n/a
00430	South Shropshire Housing Association	01/04/1992	Community	Shropshire Council	Existing Valuation Basis	Closed	5	n/a	n/a	n/a
00442	Association of Local Councils	01/04/2005	Community	Shropshire Council	Existing Valuation Basis	Open	n/a	n/a	n/a	n/a
00443	Severn Gorge Countryside Trust	01/11/1993	Community	Telford & Wrekin Council	Existing Valuation Basis	Open	25	n/a	n/a	n/a
00444	Age Concern Shropshire	01/04/1994	Community	Shropshire Council	Existing Valuation Basis	Closed	n/a	n/a	n/a	n/a
00445	Harper Adams University Coll	07/03/1967	Community	n/a	Existing Valuation Basis	Open	19	n/a	n/a	n/a
00446	South Shropshire Leisure Ltd	01/04/2004	Transfer	Shropshire Council	Existing Valuation Basis	Open	25	n/a	n/a	n/a
00447	Telford Trust	01/06/1970	Community	Telford & Wrekin Council	Existing Valuation Basis	Open	25	n/a	n/a	n/a
00449	Ironbridge Gorge Museum Trust	01/04/1972	Community	Telford & Wrekin Council	Existing Valuation Basis	Closed	n/a	n/a	n/a	n/a
00455	Meres + Mosses Housing Assoc	30/07/2007	Community	n/a	Existing Valuation Basis	Closed	n/a	£38,000	Feb-11	Valuation
00457	HMM Arts Limited	01/04/2005	Community	Shropshire Council	Existing Valuation Basis	Open	25	n/a	n/a	n/a
00471	Relate Shropshire	01/04/1995	Community	Shropshire Council	Existing Valuation Basis	Closed	n/a	n/a	n/a	n/a
00475	Coverage Care Ltd	01/03/1997	Community	n/a	Existing Valuation Basis	Closed	n/a	£100,000	Feb-11	Valuation
00482	Wrekin Housing Trust	25/03/1999	Community	Telford & Wrekin Council	Existing Valuation Basis	Open	25	n/a	n/a	n/a
00484	Accord Housing Association	06/09/1999	Community	Telford & Wrekin Council	Existing Valuation Basis	Closed	n/a	n/a	n/a	n/a
00489	Telford + Wrekin Services Ltd	02/04/2001	Transfer	n/a	Existing Valuation Basis	Closed	n/a	£2,160,000	Feb-11	Valuation
00490	MENCAP	01/08/2001	Community	Shropshire Council	Existing Valuation Basis	Closed	n/a	n/a	n/a	n/a
00491	Severnside Housing Associatio	01/10/2001	Community	n/a	Existing Valuation Basis	Closed	19	£5,240,000	Jan-11	Valuation
00492	Interserve Project Services	01/04/2006	Transfer	Telford & Wrekin Council	Existing Valuation Basis	Closed	n/a	n/a	n/a	n/a
00493	Care Quality Commission	01/04/2009	Community	Not required, Government Body	Existing Valuation Basis	Closed	n/a	n/a	n/a	n/a
00502	Veolia	02/10/2008	Transfer	n/a	Existing Valuation Basis	Closed	n/a	£910,000	Feb-11	Valuation
00507	Crime Reduction Initiatives	01/08/2008	Community	n/a	Existing Valuation Basis	Closed	n/a	nil	n/a	Valuation
00515	Taylor Shaw Ltd (Bridgnorth)	01/08/2010	Transfer	n/a	Existing Valuation Basis	Closed	n/a	£600	Aug-10	Valuation
00516	Funeral Services Limited	12/09/2011	Transfer	n/a	Existing Valuation Basis	Closed	n/a	nil	n/a	Valuation