FUNDING STRATEGY STATEMENT

Introduction

1. This paper proposes a number of minor amendments to the Funding Strategy Statement (FSS).

Recommendation

2. The Committee is asked to endorse:
    a) the amendments to the FSS
    b) that Officers conduct a limited consultation, restricted to employers that may be affected by the amendments.

Background

3. The Funding Strategy Statement (FSS) describes the actual decision-making processes of administering authorities in relation to how they manage ongoing employers' pension costs and risks in the context of their legal and fiduciary relationships with scheme employers.

4. The current version of the FSS can be read here [Item-8-Appendix-B-FSS-1v2.pdf (cheshirepensionfund.org).]

5. Members will be aware that the Fund has recently experienced a number of employers who have either left the scheme or expressed an interest in potentially exiting the scheme.

6. Section 7 "*What happens when an employer leaves the fund?*" and Appendix F – *"Policy on cessations*" of the FSS sets out the Fund's approach when an employer exits the Fund.

7. After working through a number of exits (and potential exits) in practice, Officers are recommending that the following minor amendments to the FSS are made.

Cessation Costs

8. Page 11 current wording *"The Fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and fund."*

9. Replace with "*The exiting employer will be responsible for funding any direct costs associated with the cessation. This will include any actuarial costs and Officers time costs. As the exiting employer will no longer be paying any contributions into the Fund and to protect the remaining employers and remove any cross subsidisation, an additional charge to administer the future pensions for the remaining deferred and pensioner members will be charged to the employer. Any cessation related costs will*

be deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and fund."

10. The purpose of this change is to ensure that an exiting employer meets the full cost of their exit and they are not subsidised by other continuing employers.

Guarantor takes on obligations

11. Section 7.2 page 11 "What happens on cessation" add "*Where the exiting employer has either:*

    a) a guarantee from a scheme employer participating in the Fund with tax-raising powers;
    b) a guarantee from a central government department;
    c) or a guarantee from a scheme employer participating in the Fund, which benefits from a central government guarantee

    and the assets and liabilities and the obligation to fund past and future liabilities are transferring to the guarantor, then the default policy of the Fund is that the assets and liabilities will be subsumed within those of the guarantor employer and no exit credit will be paid to the exiting scheme employer.

12. The rationale for this change is to simplify and clearly articulate the Fund's default approach should an employer (typically a council) who is acting as guarantor directly take on an exiting employer's obligations e.g. through in-housing a service or staff. All assets and liabilities will transfer to the guarantor employer and no exit credit will be payable.

Additional Allowances in Assumptions

13. D5 page 23 "What assumptions apply in a cessation valuation following an employer's exit from the fund". Add *"Additional allowances may be made relative to the funding basis for other areas of material uncertainty, including, but not limited to, inflation, longevity, exceptional market volatility around the cessation date and future benefit changes. This approach might result in a higher value being placed on the liabilities than would be the case without these additional allowances"*

14. The rationale is to give the Administering Authority more flexibility and discretion (if required) to allow for and to incorporate into the exit credit determination, any material events around the cessation date. Use of this discretion would be clearly communicated to any exiting employer.

Limit exit credit to employer contributions paid

15. And finally, to “F5.3 Exit credits General” page 36 add “*Any exit credit payable will be subject to a maximum of the actual employer contributions paid into the Fund.*

16. Officers believe this final change brings the FSS explicitly and clearly in line with the policy intent of the LGPS exit credit regulations.

Next Steps

17. The Fund is required to consult with employers should there be a significant change to the FSS.

18. As these amendments only affect a small number of employers, mainly the councils and those employers who can exit the LGPS, it is proposed that a 30 day consultation is launched, limited to those employers directly affected by the amendments.

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