worcestershire countycouncil

AGENDA ITEM 6

PENSIONS COMMITTEE
21 JANUARY 2019

FUNDING STRATEGY STATEMENT UPDATE FOR CHANGES TO LGPS REGULATIONS

Recommendation

1. **The Chief Financial Officer recommends that the Funding Strategy Statement (FSS) attached as an Appendix be approved.**

Background and Introduction

2. All employers of the Worcestershire County Council Pension Fund were provided with the Funding Strategy Statement (FSS) which was implemented with effect from March 2017 following the 2016 Actuarial Valuation. The purpose of the Funding Strategy Statement ("FSS") is to set out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met going forward

3. The Administering Authority is required to monitor the progress of the funding strategy between full actuarial valuations and review the strategy if it is considered appropriate. The overarching regulations of the LGPS were updated with effect from 19 April 2018 through an amending Statutory Instrument; the Local Government Pension Scheme (Amendment) Regulations 2018. The Fund has therefore taken the view to update the FSS to reflect this legislative change.

FSS Consultation Requirements

4. All employers were sent the relevant updates to the FSS (attached as an Appendix to this report) on the 7 December and given up until the 21 December 2018 to respond. It was highlighted that whilst we would take into account all consultation responses from employers in the Fund, it is ultimately the Administering Authority's responsibility to formulate and implement the FSS.

5. It was strongly recommended that employers read and understand the FSS provided as it may have a financial and operational impact on their status as a scheme employer.

How has the Funding Strategy Statement changed?

6. Historically, the Regulations did not allow a surplus of assets over liabilities to be paid out of the Fund when an employer terminates (for example when the last active member leaves the Fund or the admission agreement comes to an end) whereas a payment would be required to cover any residual deficit or this deficit would be subsumed by another body in the Fund. The Regulation change means that if an employer exits the Fund and the resultant actuarial assessment shows a surplus, the cash amount can now be returned to the exiting employer. The Fund therefore

needed to consider how this change of position interacts with the current policies in place (in particular the termination policy in the FSS).

Employers who have a guarantor participating in the Fund

7. The general policy for employers that exit the Fund with a guarantee from a guarantor (usually the original employer or letting authority) is for a termination assessment to be done and for any outstanding deficit to that is not recovered from the outgoing employer/bond to be paid by the guarantor (or for the guarantor to subsume the residual assets and liabilities). Where the guarantor subsumes the residual position, the impact on the guarantor would emerge as part of the following actuarial valuation within the contribution requirements.

8. The Fund does not intend to change this policy. The FSS has therefore been updated to include cases where the exiting employer is in surplus. In cases where the employer exiting the Fund would not have ordinarily been expected to meet any outstanding deficit, the residual assets and liabilities, and hence the surplus, will transfer back to the guarantor. Alternatively, if the exiting employer would be expected to pay all or part of any deficit emerging, then the Fund would pay all or part of any surplus emerging via an exit credit, direct to them.

9. This is subject to agreement from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor, in particular any 'Risk-Sharing' agreement that may exist. If all parties do not agree, then the surplus will be paid directly to the exiting employer (despite any other agreements that may be in place).

10. This policy ensures consistent treatment with a deficit or surplus at termination when there is a separate guarantor. The key changes are included in Appendix C Admission and Termination Policy of the attached Funding Strategy Statement.

Employers who do not have a guarantor participating in the Fund

11. The policy for these employers is currently that any deficit on termination is collected from the exiting employer but a surplus could not be returned under the Regulations. The policy will be:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process

- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

12. The Minister for Housing, Communities and Local Government has confirmed that payment of a surplus does not result in a tax liability being incurred on the payment.

Outcome of Consultation

13. We did not receive any responses to the consultation. Therefore we are seeking approval to the updated Funding Strategy Statement as attached as an Appendix which takes on board the change to the LGPS regulation.

Contact Points

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Supporting Information

- Updated Funding Strategy Statement as attached as an Appendix

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

The overarching regulations of the LGPS updated with effect from 19th April 2018 through an amending Statutory Instrument; the Local Government Pension Scheme (Amendment) Regulations 2018.