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# CIPFA Pensions Network CFO Briefing

## Pensions Implications for Employers

39 Offices in 19 Countries

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# Overview

- Who are your employers…
- … and how strong is their covenant to your fund?
- Dealing with employers: what has and hasn’t changed with LGPS 2014?
- How can LGPS funds manage admitted bodies more smartly?
- What if it all goes wrong?

# Who are your employers?

- Administering authority
- Other scheduled bodies
- “Admitted bodies”
  - Private sector contractors
  - Charities / not-for-profit organisations
  - Transport authorities
  - Emergency services bodies
  - Further education establishments
  - Academy schools

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# What covenant do the employers provide?

- TPR definition:
  - the employer's legal obligations to a DB scheme, and its ability to meet them
- What resources are available to your fund and in what circumstances?
  - Ordinary contributions
  - Any additional contributions
  - Exit debt
  - Guarantee
  - Bond
- Admission agreement vs. wider contract terms

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# What has and hasn't changed?

No Change

- Balance of powers between Administering Authorities and Admitted Bodies
- Terms of Admission Agreements (reg 7, Admin Regs and reg 6, Transitional Regs)
- Rates and Adjustment Certificate (reg 36(4) Admin Regs but reg 7 of Miscellaneous Regs)
- Pass through contracts

What will change?

- New admission agreements (post 2014)
- Fair deal: no alternative of a mirror image scheme?

# Constraints on LGPS funds

| Constraint | LGPS | Private Sector Schemes |
|---|---|---|
| Employer Characteristics<br>- Number<br>- Capable of Exclusion | Diverse<br>Large<br>No | Usually same or similar sector<br>Small (excluding industry wide schemes)<br>Yes |
| PPF fall back?<br>Is Employer capable of giving security? | No<br>Generally no, except for private sector admitted bodies | Yes<br>Yes, in theory |
| Recognised/usual forms of security | Bonds and guarantees | Full range: guarantees, cash in escrow, charges over property/ real estate, SPVs |
| Regulatory scrutiny of funding/ investment strategy | DCLG retains scrutiny but no TPR powers over funding or Investment | Significant scrutiny by TPR; NB new statutory objective re sustainability of the employer |

# But… balance of powers

| Balance of Powers | LGPS | Private Sector Schemes |
|---|---|---|
| Control of Contribution Rate | Actuary/Administering Authority | Frequently shared between Employer and Trustees |
| Control of Exit Debt | Administering Authority | Trustees, but statutory apportionment options |
| Ultimate funding responsibility for orphan liabilities | Remaining Fund Employers/ Administering Authority | Depends on scheme rules: some are last man standing |
| Interaction with outsourcing contract | Letting Authority/ Employer | Not applicable |

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# What can LGPS funds do more smartly?

- Levers:
  - Security
  - Early warning systems (monitoring)
  - Investment ring-fencing
- Ideally:
  - Segmentation of fully analysed risk to fund by individual employer
  - With investment strategy to match those employer characteristics
- Realistically:
  - Methodology for employer security (and covenant) assessment
  - Improve admission agreement terms
  - Critically evaluate cross-subsidies between employers in contribution rates

# What if it all goes wrong?

- Shortcomings of Current Admission Agreements
  - Self-assessment of on-going credit risk?
  - Indemnity or bond terms are actuarially assessed to meet “a level of risk” exposure: static terms set at the outset, not dynamically linked to moving exposure
  - Guarantees: no detail prescribed currently other than a warranty from the Admission Body that guarantee is in place, so no check on strength of guarantor or material adverse effect impact on guarantor

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# Legal recommendations for LGPS funds

- Legislation not exhaustive, so Admission Agreements should be tightened up by:
  - linking levels of indemnity from bonds to deficit levels
  - requiring greater conditions precedent (e.g. capacity of guarantor to give guarantee)
  - posting collateral if deficit triggers reached or other material adverse events occur (altering Rates of Adjustment Certificate)
  - due diligence on enforceability of guarantees
  - notifiable events to pre-warn Administering Authority
  - take other security (escrow, separate security over assets)

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# Any questions?

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*The small print:*

***"This information has been prepared as a general guide and does not constitute advice on any specific matter. We recommend you seek professional advice before taking action.  We accept no liability for any action taken or not taken as a result of this information."***

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# Worldwide Locations

## North America

- Cincinnati
- Cleveland
- Columbus
- Houston
- Los Angeles
- Miami
- New York
- Northern Virginia
- Palo Alto
- Phoenix
- San Francisco
- Tampa
- Washington DC
- West Palm Beach

## Latin America

- Bogotá+
- Buenos Aires+
- Caracas+
- La Paz+
- Lima+
- Panamá+
- Santiago+
- Santo Domingo

## Europe & Middle East

- Beirut+
- Berlin
- Birmingham
- Bratislava
- Brussels
- Bucharest+
- Budapest
- Frankfurt
- Kyiv
- Leeds
- London
- Madrid
- Manchester
- Moscow
- Paris
- Prague
- Riyadh+
- Warsaw

## Asia Pacific

- Beijing
- Hong Kong
- Perth
- Seoul
- Shanghai
- Singapore
- Sydney
- Tokyo

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