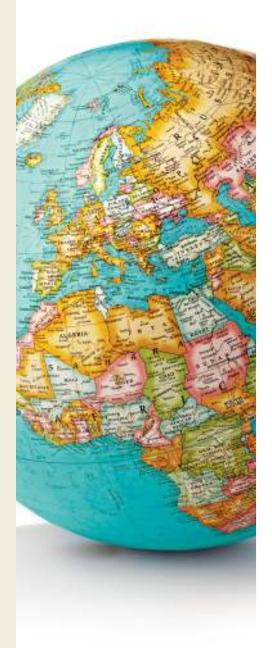


CIPFA Pensions Network CFO Briefing

Pensions Implications for Employers





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



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



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 - Number - Capable of Exclusion	Diverse Large No	Usually same or similar sector Small (excluding industry wide schemes) Yes
PPF fall back? Is Employer capable of giving security?	No Generally no, except for private sector admitted bodies	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



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



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)



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."



Worldwide Locations



North America

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

West Palm Beach

Latin America

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

Europe & Middle East

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- 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