Appendix 3

Managing Employer Risk

1. The Barnet Pension fund currently has 61 employers, each of whom is responsible for meeting the contribution set by the Actuary and providing the information required to meet the fund's obligations to Scheme members. The management of these risks is discussed below. Although the fund's assets are managed in aggregate, they and the liabilities, are allocated to individual employers and it is a responsibility of the administrating authority to manage the scheme to reduce the risk that the liabilities of a defaulting employer will have to be shared between other employers.

Paying Contributions

2. The contribution rate is set by the Scheme Actuary to provide a reasonable, but not absolute, probability that the assets of the fund will be sufficient to pay the liabilities as they fall due. Many assumptions are used when determining the contribution rate and if the Actuary were to seek absolute assurance, the required level of contributions would be unaffordable. The Funding strategy statement discusses the basis on which contribution are set including critical assumptions such as:

   - The employer will continue to have active membership in the scheme
   - A time horizon over which deficit will be recovered
   - The required probability of achieving full funding over the designed period.

3. Historically the Actuary has used a required probability of achieving full funding of between 2/3rds and 70% and based deficit contributions on a 20-year recovery period. This is likely to remain the norm although the conditions of individual employers will be reviewed. Those with few active staff but significant liabilities may be switched towards a cessation basis (lower discount rate and therefore generates a greater liability value) or a shorter deficit recovery period.

4. Concern that Council's and actuaries were being overly optimistic in setting contribution rates caused the Government Actuary's Department being asked to review triennial valuation results and highlight outliers. One of the suggestions from GAD is that the projected date to achieve full funding should not roll forward at each valuation i.e. that deficit contribution periods should gradually reduce. The implications of following this approach will be considered prior to finalising the valuation.

Admitted Body Status

5. Employers who gain access to the Pension Fund by being awarded contracts involving the transfer of staff are known as admitted bodies. They are required to sign an admission agreement as is the contract awarding entity (typically the Council or an academy). The awarding entity is required in the admission agreement to guarantee the pension obligation of the admitted body thereby offering an additional layer of protection to the fund.

6. The second protection for admitted bodies is the provision of a bond or parent company guarantee. There is a requirement under scheme regulations to consider whether the risk of

admission require the provision of a bond or guarantor. If a bond is selected, the required value is calculated by the Actuary based on an estimate of the cessation liabilities. Where the admitted body has a parent entity that is considered of good financial standing e.g. listed entity, a guarantee from the parent will be considered. Part of the triennial valuation process is to review all the required bond values.

7. In circumstances in which a bond or guarantee are not available or prohibitively expensive, an alternative is to increase the contribution rate to reduce the probability that a deficit on cessation will occur.

8. Local authorities have the discretion to admit community admission bodies e.g. charities, who operate in the borough and whose goals are aligned with the Council. None participate in the fund and due to the uncertainty of their funding position, it's unlikely that the discretion would be exercised.

Academies

9. The majority (36) of the employers' in the pension fund are academies. The Government has provided a guarantee to LGPS Administering Authorities that in the event of the closure of an Academy Trust any outstanding LGPS liabilities will not revert to the fund. In the first instance, where an Academy Trust closes, the Department of Education (DoE) will ensure that the closure is effectively managed and would expect the liabilities to be met from the Academy Trust's assets on closure. The Secretary of State has the power to determine how the assets of an Academy Trust are disposed. Any remaining outstanding LGPS deficit would then be met by the Department in full. The Government has set a cap on its liability under this guarantee and plans to periodically review the guarantee.

Universities and Colleges

10. The fund has three universities and colleges who are not covered by a Government guarantee or the requirement to provide a bond / guarantor. Their position will be considered carefully when finalising the new contribution as they are significant employers.

Provision of Information by employers

11. In addition to the payment of contributions, the pension fund can only operate if employers provide information to enable benefits to be calculated and paid. The Fund has prepared an administration strategy that sets out the various parties including employers. If employers do not fulfil their obligations the fund can levy fines or may report the employer to the Pension Regulator.

Conclusion

12. The rise in the number and variety of scheme employers has increased the risk that the fund will suffer a default. The Council is the safest employer due to its tax raising powers and is therefore allowed to smooth changes in contribution rates (referred to as stabilisation). There is a requirement to pay greater attention to the employer covenant (ability to meet their obligations) and this will be factored into the contribution rates being set in the 2019 triennial valuation.