

FC28. Pension Fund – Proposal in Relation to Admission Bodies

Council considered a report by the Director of Corporate and Housing Services which provided details of a proposal to enable small Pension Fund employers, who were struggling financially to sustain Scheme membership, to leave the Fund without incurring substantial exit costs. Any decision would be subject to similar approval by Clackmannanshire and Stirling Councils.

Under the terms of the Local Government Pension Scheme, Falkirk Council had a dual role as both the administrator of the Falkirk Council Pension Fund and as an employer who participated in the Fund. Around 35 other employers participated in the Fund including Clackmannanshire, and Stirling Councils, and various other smaller organisations mainly of a charitable or non-profit making nature.

Employers in the Fund were either Scheduled Bodies or Admission Bodies. Scheduled Bodies (e.g. the Councils) must by law operate the Scheme, whereas Admission Bodies could apply to participate and could choose to leave at any time. At The most recent fund valuation the Fund's funding level had improved to 92%, meaning that the Fund held 92% of the monies required to meet all of its current liabilities.

Although funding positions had increased, the expected return on future investment had decreased due to uncertainties around factors such as Brexit, interest rates and lower levels of economic growth. As a consequence, employers were being asked to pay higher contribution rates (often in excess of 20% of pay) with no guarantee that contribution rates would not increase further in the future.

A small number of Admission Bodies had indicated that the latest contribution rates were not sustainable in the long term and that the costs and financial risks of being in the Fund adversely impacted on their abilities to operate effectively and to meet their primary business objectives. This was an issue that common to Funds across Scotland.

Where an Admission Body wished to leave the Fund, they must make good any deficit attributable to them – either in full immediately or by entering into a repayment plan with the Fund. A possible solution allowing certain employers to leave the Fund without major costs being incurred is for Clackmannanshire, Falkirk and Stirling Councils to act as guarantors of the pension costs. This would allow the admission bodies to terminate their membership of the Fund, with their assets being re-allocated to the Councils, and the Councils, in turn, taking on the responsibility of funding the liabilities.

If approved, and in order to further manage the small risk to the Councils, it was proposed that this “offer” be only made to employers who met the following criteria:-

- the employer is an Admission Body other than a private contractor
- the employer has a total membership of less than 100
- the employer is fully funded on the ongoing funding basis
- the employer formally requests to terminate their Admission Agreement
- the employer agrees that their share of fund assets, including any assets in excess of the liabilities, are transferred to the Councils in full (i.e. no refund of any surplus would be given)

Decision

Council agreed:-

- (1) (subject to agreement being given by both Clackmannanshire and Stirling Councils) to act as guarantors of the pension liabilities of those admission bodies who meet the criteria set out in paragraph 5.6 of the report, and**
- (2) (where paragraph (1) does not apply) to act as guarantors of the pension liabilities of those admission bodies who meet the criteria set out in paragraph 5.6 of the report and who are based in or serve the community in the Falkirk Council area.**