Client Briefing Note		26 September 2009
Client	Nottinghamshire County Council Pension Funds	
Subject	Fund Merger	

Introduction

The purpose of this note is to provide some additional information in relation to the proposal to merge the Main Fund and the Admission Bodies Fund.

This report follows our previous report dated March 2009. The purpose of this report is mainly to consider how the employers in the Admission Bodies Fund would merge into the Main Fund and in particular the issues associated with contribution rates should the Admission Body Fund employers be pooled with other employers in the Main Fund for contribution purposes.

Background

There are around 60 employers in the Admission Bodies Fund. For contribution purposes there are 4 employers who have their own individual contribution rate. The rest are pooled together and pay the same contribution rate.

Within the Main Fund there are 26 employers who have individual contribution rates. There are 30 small scheduled bodies (Town and Parish Councils and other small statutory bodies) who are pooled for contribution purposes.

Options

If the Admission Body Fund was merged into the Main Fund then there are a number of options

- Retain the existing pooling arrangements in the Admission Body Fund (4 separate employers and 1 pooled rate) once in the Main Fund – the "status quo" option

- Continue with separate contribution rates for some or all of the 4 Admission Body employers already on separate rates and merge the Admission Body pooled employers with the Small Scheduled Body employer pool in the Main Fund.

- Pool all Admission Body employers with the Small Scheduled Body employer pool.

The status quo option is clearly the simplest. However one of the drivers behind merging the 2 funds is to achieve some economies of scale and increase the overall efficiency of the management of the Funds.

There are a number of issues associated with pooling employers for contribution purposes. The key issue however is one of size – the number of members per employer.

Barnett Waddingham
Public Sector Consulting

The rationale behind separate contribution rates is to ensure that employers pay for their own pension costs. However the smaller the employer the more volatile contribution rates will be and so for smaller employers it is normal to pool similar types of small employers to help achieve some stability in contribution rates. The price of stability however is some element of cross subsidisation of pension costs within the pool.

There is no correct threshold to determine whether an employer is large enough to have their own rate but 50 active members is often deemed to be around the right number.

There may also be Transferee Admission Bodies (contractors) where regardless of size it is deemed appropriate to keep their assets and liabilities separate.

The following table sets out the membership data for the Admission Body employers at the 2007 valuation.

Employing Body	**Pensionable Employees**	**Preserved Pensioners**	**Pensioners**
Connexions Nottinghamshire Limited	272	84	36
Rushcliffe Homes Limited	53	12	10
SLM Limited	50	19	5
UPP Residential Services Limited	32	15	6
Grouped Admission Bodies and former employers	663	465	113
Former Employers with no active members	0	211	178
Totals	1,070	806	348

As we see Connexions is quite a large employer and certainly large enough to merit their own contribution rate. Rushcliffe Homes and SLM are around the 50 mark and UPP is less than 50. The pool of small admission bodies has the most active members but only an average number of members of around 12 per employer.

Within the Main Fund the Small Scheduled Bodies pool only has 131 active members and so is a much smaller pool than the Admission Body pool.

Whilst there is probably a case for pooling UPP with the other small bodies, if there is to be any merging of employers or pools then the obvious one is to merge the Admission Body pool with the Small Scheduled Bodies pool to create a “Small Employer Pool”.

Merging the Pools

The contribution rate for the Small Scheduled Bodies pool for 2010/11 will be 18.2% of payroll. The rate to be paid by the Admission Body pool employers for 2010/11 will be 15.5% of payroll. Had these 2 pools been merged at the 2007 valuation then the required rate would have averaged out at around 16% of payroll.

Contribution rates of course are unlikely to remain at current levels following the 2010 valuation but on merging the 2 pools and having the one contribution rate, then the Small Scheduled Body employers are likely to see a lower rate than otherwise would have been the case and vice versa to a lesser extent for the Admission Body pool employers.

However it would be possible to have a transition period – say a 3 year intervaluation period – where contribution rates were set in such a way that they end up being at the same level in 3 years time. Much will depend on what that target level of contribution would be but on the basis it is likely to be higher than the current average rate and possibly the higher Small Scheduled Bodies rate, it would be possible to phase in the increase separately for the 2 groups at different rates so that they end up paying the same rate in say 2013/14.

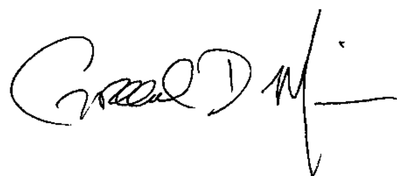
Retaining the 2 Pools

The alternative is of course to continue with 2 pools – a small admission body pool and a small scheduled body pool. In other funds where we advise this is often the case as the profiles of active membership can be or can be perceived to be quite different.

An issue which is currently being discussed within the LGPS is whether to adopt different funding strategies (different deficit recovery periods etc) for admission and scheduled bodies. Currently the Main Fund adopts a 20 year recovery period and the Admission Bodies Fund has 17 years.

It is anticipated that deficit recovery periods are likely to be extended at the 2010 valuation to keep contributions manageable. However there is the view that for employers who can leave the Fund – admission bodies – either voluntarily or by going out of business, then it may not be desirable to extend recovery periods so that they are better funded if they do leave. Of course this would mean higher contribution rates which might cause them some difficulties and so some care in terms of the balance of prudence and affordability is required. However keeping the 2 pools would allow the possibility of different funding strategies for the 2 types of employer if it was deemed desirable to do so.

We look forward to discussing this report at the meeting on 8th October.



Graeme D Muir FFA
Partner
Barnett Waddingham LLP