

ASDV Pensions – Potential Impact of staff transfers on the Council's pensions contributions

The Issue

- 1 An important issue for consideration in transferring staff to ASDVs is the potential knock on effect on the LGPS and Cheshire East Council's contributions to the fund. This may occur regardless of whether the ASDVs keep the LGPS open or closed to new entrants.
- 2 The potential impact of ASDV staff transfers flows from the fact that Cheshire East's pension contributions are set on the assumption that its membership will remain broadly stable i.e. the flow of new entrants to the scheme is balanced by the number of leavers and retirees. The question is whether this assumption still holds true when the Council is transferring staff to ASDVs who are set up as separate employees in the scheme.
- 3 The Fund's actuary has warned that a large transfer of staff (or series of transfers) means that the flow of new entrants into the Council is stemmed. This has the effect of 'ageing' the membership of the Council scheme. This process starts to have an impact on the investment strategy of the fund as cash flow becomes a more pressing concern - less cash from new members coming in. This could result in the fund moving away from a predominately equity based strategy. A more risk adverse strategy may then be pursued resulting in reduced returns. This in turn places a greater strain on the Fund and the Council's contribution to it from a shrinking number of active members.
- 4 It is not possible to estimate the long term impact of the transfers with any degree of accuracy. This is mainly because there are a huge number of other factors at play e.g. non ASDV Council downsizing, investment returns, longevity etc. To give an indication of the potential impact - a 1% increase/decrease on employer contributions for the Council equates to approx. £1.1m per annum.

Mitigation

- 5 The number of active members transferring to ASDVs on 1st April is 582. This equates to 7.7% of the Council's current active members. The actuary has confirmed that the Council's contributions do not need to be increased at the time of these transfers. The actuary has also said that the Council needs to be aware of the potential risk of the transfers hastening or contributing to the maturing impact on the main fund. At this stage, given the numbers involved, there is unlikely to be a significant effect on the residual fund.
- 6 Further mitigation of any potential risk is offered by the broader review of Cheshire East's strategy on the funding of its contributions to the Pension Fund, where a number of options are being reviewed. These include options such as pre-paying deficit contributions to the Fund as cash amounts rather than the current monthly drip feed. This could deliver benefits to both the Fund and the Council's long term pension contributions.