



WPS EMPLOYERS' DAY Q&A

JULY 2023

1. Has the Trustee discharged any employers from their With Profits liabilities under the contribution rule?

One statutory employer has been discharged and its WPS liabilities transferred to another statutory employer. This was in exceptional circumstances with a resulting covenant improvement.

One other employer is in the process of a discharge again in exceptional circumstances.

More generally a number of employers have had their liabilities guaranteed by a successor organisation or another employer.

The Trustee continues to look at individual cases on their merits and anticipates a wider discharge process as part of the contribution discussions. This is likely to be in respect of employers with very small liabilities and a significant premium will be required. The Trustee is conscious of the need to manage the administration costs of collecting contributions and discharging some employers may be cost effective.

2. How are orphan liabilities managed and what is the risk of them increasing?

Orphan liabilities are liabilities that are not recoverable from an employer (e.g. due to its insolvency). Orphan liabilities are shared amongst other employers in proportion to employers' existing liabilities. Orphan liabilities identified when the scheme was reclassified are already included in the numbers provided to employers.

The most significant risk of increasing orphan liabilities is in relation to employers which have merged or in some way changed their legal personality. The Trustee has in such cases contacted the successor firms as being the most effective means of minimising costs and improving the funding position more quickly whilst still attributing liabilities to the appropriate organisation.

3. How is the buyout position being managed against a moving market?

This is undoubtedly a challenge and feeds directly into the investment strategy and the level of contributions. This will be discussed further at the meeting in the autumn when alternative strategies will be presented.

If the Trustee considers it is reasonable to target buyout more quickly, it will do so, having regard to all the circumstances at the time.

4. Has the investment strategy changed since 2022?

Not materially as any significant changes will be discussed with employers first.

5. How is the covenant assessed against the deficit?

The covenant adviser (PwC) explains in the presentation how the covenant is assessed. Basically, they consider whether the participating employers are financially able to support the deficit. Given the number of employers and the size of some of those employers, the covenant is assessed as strong.

6. Were there any insolvencies in the last year?

There was one insolvency in the last year. Unsecured creditors are not receiving any payments. This firm's liability will therefore become an orphan liability.

7. What is the implication for LLP accounts?

Your auditors will ask for a FRS102 valuation of the With Profits Section. This will show the funding basis on a standard accounting basis which is different to the ongoing funding basis as the requirements are different under the SORP to those under the scheme funding regime.

The FRS102 valuation details are available here at 31 March 2023 and 30 April 2023. If you need figures at a different date, please contact us.

8. Can employers view the data?

The Trustee assesses the quality of the data each year and is confident that it is accurate and robust after a very detailed review in 2013-2015. The data is reviewed for consistency by the Scheme Actuary each year. Each employer's share of the overall liabilities is based on the data relevant to employees of that firm or successor firms and was calculated by the Scheme Actuary in 2013. We can provide data showing the different employers included if required. Member data can be provided subject to DPA requirements but we are conscious of increasing costs by engaging in detailed data discussions with hundreds of employers.

9. Why is the Trustee considering bringing the valuation date forward?

The Trustee is keen to improve the funding position of the With Profits Section as soon as practicable and reach buy out. If the valuation date remains as at 31 December 2023, contributions may not start until April 2025 which will further delay any improvement in the funding position. It is not related to the funding level as at 31 December 2022.

10. Did cutting the liability hedge impact the deficit?

The Trustees decided to reduce hedging to ensure the With Profits Section could withstand a significant spike in interest rates, in an extreme scenario. This reduction in hedging did have a marginal negative impact on funding and the deficit, which is effectively the price paid to provide the Section with a more secure position. If interest rates had spiked even higher and such action had not been taken, the Section would have experienced a significant negative impact. It is worth noting that the Section did not see the significant impairment in funding that some other pension schemes saw through that particular period.

11. Can we have access to the Court order?

Yes.

12. Why did the target buyout date move from 2027 to 2029?

It moved at the last valuation to give more time for investment performance to provide outperformance to meet the buyout costs.

13. What period would contributions be payable?

This is one of the factors that the Trustee will be considering in the round, along with other issues on recovery, taking appropriate professional advice, and on which it will report in due course.