EMPLOYERS: RISK MANAGEMENT FRAMEWORK

MARCH 2023

West Midlands Pension Fund

1 INTRODUCTION

The Fund's employer base has changed significantly over recent years and is increasingly diverse and includes a large number of employers with more limited capacity and access to financial support for their pension obligations. In our view, the covenant review, and its application to all employers, is of increased importance and will help ensure all employers have an appropriate funding strategy. In addition, the process helps to ensure, as far as possible, that employers are protected from the risk that other employers default on their pension liabilities in the future. The Fund has in place a framework to monitor the covenant of all of its participating employers. This is with a view to mitigating the risk exposure of all employers in the event of the failure, wind-up or cessation of a scheme employer with an unpaid funding deficit. For the purpose of this document, we reflect all employer types (scheduled as well as admission bodies).

The preparation of this Employer Risk Management Framework has been based on the latest CIPFA guidance and specifically that covering employer risk in the LGPS.

The most recent version of this document was reviewed in conjunction with the 2022 actuarial valuation.

1.1 Employer type

The scheme employer base consists, broadly, of three types of employer:

- Scheduled bodies
  - A local authority, police and fire service bodies, universities, colleges and academies
- Resolution bodies
  - Parish councils and companies under the control of a scheme employer
- Admission bodies
  - A body that is providing a service or assets in connection with the exercise of a function of a scheme employer, or a body which provides a public service which operates otherwise than for the purpose of gain and has sufficient links with a scheme employer for the body and the scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent upon the scheme employer or otherwise).

1.2 Employer covenant

An employer's covenant is its legal obligation and ability to fund the scheme now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the scheme is exposed, including underfunding, longevity, investment and market forces, which impact on the Fund's ability to continue to pay pensions to all members over the long term.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is important to identify increasing exposures to risk. The assessment and monitoring of employer covenant is covered in more detail later in this document.

1.3 Risk

- Risk can be defined as the combination of the probability of an event and its consequences:
- Probability: the Fund considers the likelihood of the employer becoming unable to meet its obligations to the Fund, for example due to:
  - admission agreement prematurely terminated (eg, due to the end of a contract) and employees are not transferred to another employer;
  - the number of active members falls to zero; and
  - material reduction in the employer's ability to make ongoing payments, evidenced by poor or weakened covenant indicators, increasing the potential for external financial support for insolvency or cessation of the employer.

- Consequences: where employers are unable to make payments or meet their liabilities and there is no cover provided by a guarantor (where applicable) or other body, these liabilities will then fall to the Fund as a whole – ie, the other Fund employers. The impact of this, ie, the severity of the consequence, is linked to the size of the deficit from the failed employer.

Risk management requires identification and assessment of risks (the 'inherent risks') and responding to them.

Response to risk; a response may involve one or more of the following:

– Tolerating risk.
– Treating risk in an appropriate way to constrain the risk to an acceptable level.
– Transferring the risk.
– Terminating the activity giving rise to the risk.

This document outlines in more detail the strategies the Fund will consider to manage the employer risks identified.

The level of risk remaining after a review is that which has been accepted (the 'residual risk') and is the exposure in respect of that risk, and should be acceptable and justifiable.

2 IDENTIFYING RISK

2.1 **Identifying risk**

The West Midlands Pension Fund (the Fund) is exposed to a number of risks associated with employers. In order to mitigate these risks, it is necessary to identify them and assess them so as to ascertain which are deemed tolerable and those that need to be addressed.

Broadly speaking, the key risks specific to the Fund are as follows:

Financial
Market fluctuations, investment returns and pay/price inflation, impact on funding levels and the contributions required to meet future benefit costs.

Demographic
Increased longevity and the cost of early retirements/ death-in-service.

Regulatory
Changes to LGPS regulations and pension entitlements and/or wider legislative change impact benefit and/or administration costs.

Governance
Administering authority unaware of structural changes in employer's membership, administering authority not advised of an employer closing to new entrants, and an employer ceasing to exist with insufficient funding or adequacy of a bond.

Employer strength and cashflow
Sustainability of an employer or their ability to meet their liabilities within the agreed funding strategy.

Many of the risks identified are beyond the control of the Fund and, therefore, it is important to target those which are material and can be influenced when mitigating risk. With this in mind, the focus of this document is in the areas of governance and employers' activities or actions, but consideration should also be given to the cost of early retirements and death in service and the potential for the transfer of such risk through appropriate insurance.

The Fund has published a *'Guide to Managing Pension Liabilities'* which provides further details of how employers might incur additional pension liabilities and steps to mitigate these.

2.2 **Levels of risk**

Examples of the typical levels of risk presented by different types of employer and driven by risk indicators classified as low, medium and high are illustrated below:

Risk levels (general rule of thumb)

Low risk

- Main councils
- Academies
- Government-backed organisations

and

- Strong financial performance
- Easily able to defray pension obligations
- All pension contributions paid on time and financial information received when requested (including employer covenant return)

Medium risk

- Higher education organisations
- Scheduled and admitted bodies with access to financial support

and

- Satisfactory evidence of financial security

or

- Security arrangements in place to provide financial support, if required

or

- Employer body with small deficit or surplus of assets over liabilities

and

- Employer able to fund repayment but represents significant cost to the employer body;
- All pension contributions paid on time and financial information received when requested (including employer covenant return)

High risk

- Distressed third sector contractor
- Small charities
- Employers with significant pension obligations vs size of employer

with some of the following

- No external funding guarantee or reserves
- Potentially limited lifespan or fixed contract term
- No active contributors and/or is closed
- Relies on voluntary or charitable source of income
- Deterioration in employer strength and/or cashflow
- Employer cannot easily defray pension obligations
- Failure to pay contributions to the Fund when due or failure to provide financial information as requested (including employer covenant return)

2.3 **Nature of risk**

The principal risk facing the West Midlands Pension Fund within the context of this framework is the inability of an employer to be able to meet its regular pension contributions and/or its liabilities upon termination. A deficit upon cessation of an employer might arise in the following scenarios:

a) Merger/employer restructuring.
b) Financial constraint arising, leading to non-payment or underpayment of pension contributions.
c) Non-payment of contributions to the Fund by an admitted employer prior to closure.
d) Premature termination of a contract where market values are depressed relative to the liabilities in respect of the admission body, assessed on consistent assumptions to those adopted in the previous actuarial valuation.
e) The last active member leaves (following which current regulations require a termination assessment).
f) The reality is less favourable than the assumptions used in setting contribution rates for that employer, – for instance, higher than expected rates of early retirement or excessive pay increases.
g) Additional liabilities created as a result of the body closing, in particular the possible payment of immediate retirement benefits to all those over age 55 at that time.
h) A pre-existing deficit in the Fund (past service liability).
i) A change from open to closed admission body status.

3 ASSESSMENT OF RISK

3.1 **Risk review**

The Pensions Regulator has set out prescribed guidelines detailing the assessment criteria upon which an employer should be reviewed:

– Nature and prospects of the employer's industry.
– Employer's competitive position and relative size.
– Management ability and track record.
– Financial policy of the employer.
– Profitability, capital structure, cashflow and financial flexibility.
– Employer's credit rating.
– Position of the economy as a whole.

In addition, with a pension scheme in mind, the following areas should be evaluated:

– The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow.
– The relative priority placed on the pension scheme compared to corporate finances.
– An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

The Pensions Regulator's Code of Practice no. 14 and associated guidance also sets out that the following should be considered:

- Prospects: the forecasts and strategies of the employer are key in respect of the employer's viability; and
- Ability to pay necessary employer contributions.
- Review of covenant in the context of distressed scenarios, including understanding the role of other stakeholder interests and ensuring fair treatment of the scheme

In effect, The Pensions Regulator's Code (in force from April 2015) places an obligation on employers to provide data to the Fund and on the Fund to establish systems and processes to conduct an employer covenant assessment.

To enable this review, the Fund may require employers to provide information to assess covenant via the annual employer covenant questionnaire and any other information requested by the Fund.

3.2 **Risk criteria**
When considering the risk a particular employer represents, as part of the Fund's ongoing monitoring of potential employer risk events, five assessment criteria or triggers will be considered, as outlined below. Where one or more of these triggers is engaged, for an individual employer, the Fund will undertake a more detailed review. These criteria, when analysed in conjunction with the strength of the employer covenant (Section 5), will provide the basis for the framework upon which risk will be continually assessed and employer stability monitored.

1. Employer with less than five active members
2. Employer where significant member movements are imminent
3. Employer with a known contract length of 18 months or less
4. Employer with a funding deficit that is outside the Fund's acceptable ratios, for example deficit relative to the size of employer turnover, surplus cash generation of assets
5. Employer with a funding level identified at the last actuarial valuation of less than 80%

4 MONITORING/SCREENING OF THE EMPLOYER COVENANT

4.1 **Assessing the employer covenant**
The employer covenant is assessed objectively and the ability of employers or guarantors to meet their obligations are viewed in the context of the Fund's exposure to risk and volatility, while preserving the interests of other employers within the Fund.
The monitoring of covenant strength by itself does not strengthen the Fund's security; however, it does enable the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach with a view to reminding employers of obligations and managing their expectations.

4.2 The Fund follows a documented process for analysing employer covenant, which ultimately categorises employers into three broad risk groups or ratings (high, medium and low risk). These risk groups drive funding assumptions, funding shortfall recovery periods and, in some cases, measures taken by the Fund to reduce employer exposure to investment and liability risks.

4.3 In reaching a rating for each employer participating in the Fund, the framework incorporates three key tiers in terms of metrics upon which the assessment is based.

4.3.1 The first tier is that of the core financial health assessment undertaken internally by the Fund. This assessment is based upon publicly available information for each employer (eg, annual report and accounts) and also in some instances information obtained via a Fund questionnaire sent to the relevant employer.

Once collated, this information is analysed with the following as examples of the the key metrics upon which the rating is based:

- **Structural metrics**
  - Type of body and its origins;
  - Nature and enforceability of legal agreements;
  - Significant member movements imminent;
  - Five or fewer active members; and
  - 18 months or less remaining of their contract.

- **Financial metrics**
  - Assessment of employer's performance (profit and loss, balance sheet and cashflow statement) relative to size of pension obligations;
  - Reference to specific ratings of the employer relevant to the nature of the employer (eg, academies, further education);
  - The payment history of the employer with respect to amounts payable to the Fund;
  - Provision of financial information on a timely basis;
  - Likelihood of insolvency;
  - Whether there is a guarantor/bond in place; and
  - Contingent assets.
- **Climate change**

  Aligned to the 2019 actuarial valuation, the Fund started to gather data and incorporate initial assessment of potential exposure to climate change based on a framework of potential risks. This centres around exposure of participating employers to physical and transitional climate risks with a view to developing an understanding of potential risks across the employer base as outlined in the chart below.

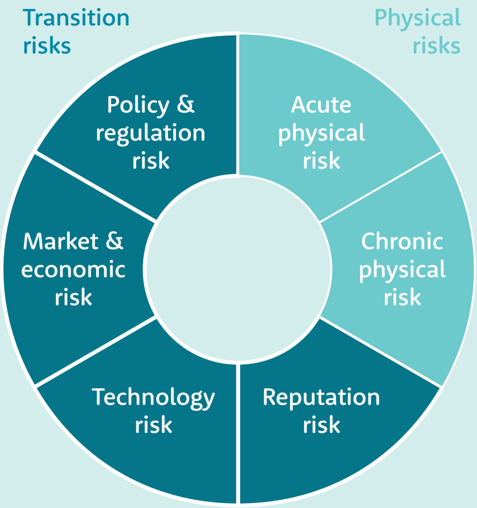
  It also extends to consideration of how the transition to a low carbon economy and/or physical risk (such as flooding) could impact employers in terms of their business model and ultimately the underlying long-term covenant in respect of the Fund.

Climate risks

Policy & regulation risk: Compliance costs; stranded assets; asset impairment; restrictions & limitations on carbon intensive assets; and asset depreciation.

Market & economic risk: Company or securities valuations; asset impairment; viability of certain business models; and credit rating implications.

Technology risk: Write-offs for investments in disrupted technologies; required investment in new technologies; and process change costs to accommodate new technologies.



Acute physical risk: Short lived extreme weather impacts. Disruptions to operations, transportation, supply chains etc. Damage to physical assets and impacts on insurance liabilities.

Chronic physical risk: Impacts due to slow insidious change such as increasing temperature or water stress. Degradation or limitations on resource availability e.g. labour, natural resources etc.

Reputation risk: Damage to brand value or reputation resulting in lost revenue and additional expenditures e.g. corporate affairs, litigation etc.

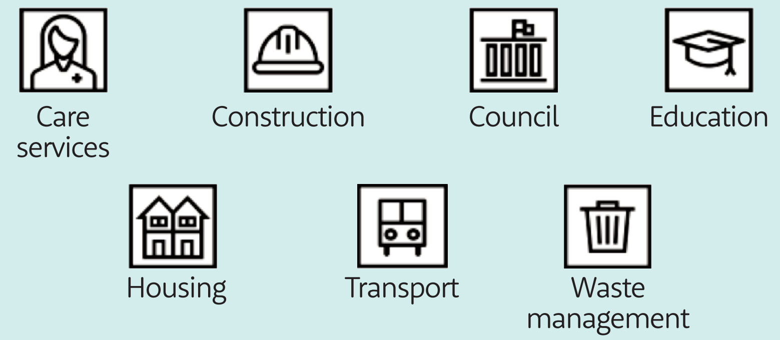
The climate risk assessed has been carried out at both individual employer and sectoral level recognising that this is an area where identification and consideration of potential risks, together with the strategies for managing, are fast developing.

This forms part of a range of factors which may be discussed with employers, subject to the Fund's initial assessment of potential exposure.

A further stage to the core financial health assessment involves moderation by Fund officers to allow for any other relevant financial or structural information notified to the Fund.

More recently, and as part of the 2022 valuation, the Fund has enhanced this approach to examine changes to climate risk magnitude and employer exposure in 2022 versus the 2019 baseline across seven key sectors.

Focus sectors



The Fund has increased awareness of climate-related covenant risk through engagement and to include consideration of management action to mitigate. The next step will be to further engage employers in higher-risk sectors and to begin quantifying climate risk exposure to be factored into the next Fund valuation cycle (31 March 2025).

4.3.2 The second tier of the covenant monitoring process is sector-specific. This again is based upon available information and responses to the Fund questionnaire. Aligned to this information, the Fund has developed a set of KPIs (scorecards) to assist in measuring covenant strength and affordability of pension contributions. These scorecards also allow for sector-specific information such as the Department of Education guarantee for academies and the application of the further education insolvency regime to be reflected in the risk rating.

The questionnaires may also include a section specific to climate-related risks as outlined in section 4.3.1.

4.3.3 The final tier involves an independent credit rating via Dun and Bradstreet (where available). From the Dun and Bradstreet analysis, the Fund obtains four separate ratings to include a financial strength indicator and an overall risk indicator.

In order to accurately monitor employer covenant, it is necessary for research to be carried out into employers' financial standing, strategy and forecasts. Whilst the Fund will routinely collect and request information to help inform the assessment, employers are expected to notify the Fund at the earliest opportunity of any action or event which could impact their employer covenant. Focus is placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

An overview of the framework upon which an employer's covenant will be monitored is detailed in the diagram on page 6 (4.6). This provides the basis for actions to be taken and ultimately the management of risk, covered in the next section.

4.4 **Frequency of monitoring**

In line with the *Funding Strategy Statement* and specifically additional flexibilities introduced to the LGPS Regulations with effect from 23 September 2020, a review may be required where there has been a significant change in the employer's covenant or where an employer requests a review on the same grounds. By way of illustration, the circumstance under which this might occur include, but are not limited to:

- Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other creditor which may impair the security provided to the Fund.
- Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer ceases to operate or becomes insolvent.
- Change in potential outcome and recovery by the Fund, where an employer exhibits behavior that suggests a change in their ability and/or willingness to pay contributions to the Fund.

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. It is important that the relative financial strength of employers is reviewed regularly to allow for any significant change in relative risk between employer groups. There will be instances where known 'events' or individual employer circumstances are to be taken into consideration, and they will be incorporated during moderation into the monitoring framework.

In summary, a high level outline of the process involved around the frequency of monitoring is set out below:

- **Routine monitoring**
  - Triennial valuation – review of employer covenant for all employers, prioritised by size of deficit and risk criteria (high risk/weak covenant first);
  - Annual employer covenant return – a desktop review of covenant strength followed by a call or meeting if required to clarify information;
- **Monitoring by exception**
  - Higher risk employers – subject to a more frequent review either six-monthly or quarterly; and
- **Crisis monitoring**
  - Regular dialogue and information flow between the Fund and employer.

4.5 **Frequency of monitoring**

It is recognised that meetings need to be tailored to each employer's circumstances, and may need to follow a further exchange of information to supplement the Fund's assessment of the employer.

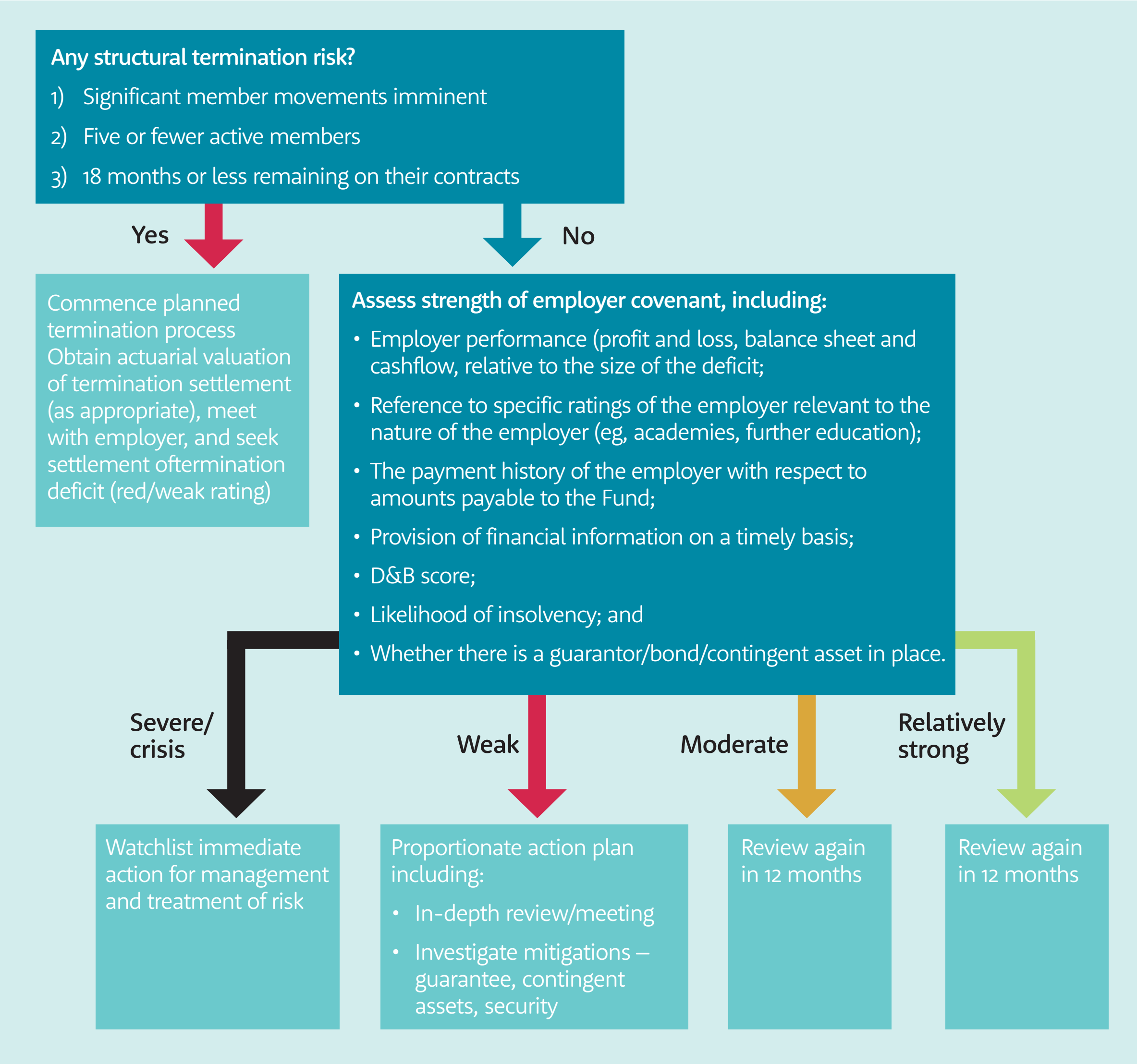
The timing of such information requests is co-ordinated so as to align with other statutory returns to capture up-to-date and readily available information quickly.

Discussion will often centre around termination debt, affordability and contingent security which will help the Fund and the employer to respond to the risk identified, in an appropriate manner.

An action plan will be agreed following each meeting.

A period of extended monitoring and information exchange may be agreed during the period of risk review.

4.6 Guide towards monitoring of the employer covenant



5 MANAGEMENT OF RISK

5.1 **Management of risk**

The focus of the Fund's risk management is the identification and treatment of the risks. It will be a regular and evolving process which is carried out in conjunction with employers. This management of risk is not a linear process, rather it is the balancing of a number of interwoven elements which interact with each other and which have to be in balance with each other if the management is to be effective.

The Fund is not party to outsourcing contracts which would normally contain any agreement on risk sharing for pension liabilities.

5.2 **Initial steps: transferee admission bodies**

After the decision to outsource a service has been taken and before the tender documentation is finalised, the Fund currently employs certain steps to minimise the exposure to any future risk.

The Pension and Lifetime Savings Association (PLSA) has produced guidance *'A best practice guide for employers participating in the LGPS'* which covers these aspects in more detail.

Pre-contract award

- The scheme employer requests the actuarial assessment (employer rate and bond) for tender and submits the staff data file (in the required format) available on the Fund website http://www.wmpfonline.com/becomingafundemployer
- Fund request the actuarial assessment and the appropriate invoice is raised to the scheme employer for the actuarial fees
- Scheme employer confirms the details of the successful bidder and the value of bond (if required)

Post-contract award

- Successful bidder (contractor) applies to the Fund for admission body status http://www.wmpfonline.com/becomingafundemployer
- City of Wolverhampton Council conduct an audit to review the financial strength of the organisation based on their accounts and other key criteria (review and risk scoring)
- Scheme employer and contractor are issued with an engrossed agreement to sign and seal (if a bond is required the contractor needs to have confirmed the details of the bondsmen and the bond is issued with the engrossed admission agreement) for all parties to sign
- The Fund will require confirmation of a suitable guarantor for any admission body application

Termination of contract

- On the termination of the contract, the Fund require an actuarial assessment of the pension exit deficit. An invoice for any pension liabilities and actuarial fees will be issued to the contractor.

5.3 **Bond/Guarantee**

If a private sector organisation becomes insolvent, it may be unable to meet its funding obligations to the Fund. Allowing organisations to become an admission body, therefore, creates an element of risk for the Fund, for other employers participating in the Fund and, in particular, for the outsourcing employing body.

If a risk assessment identifies a material level of risk, the outsourcing employing body can require the organisation to provide an indemnity or bond to protect against the identified risk.

Outsourcing employing bodies should regularly review the level of risk relating to an admission agreement, and require the admission body to put in place a revised bond or indemnity as appropriate. The Fund itself does not use bonds.

The bond is the third legal instrument required in respect of an organisation's admission to the LGPS (together with the service contract and the admission agreement). Organisations should consider employer rate and/or cost of bonds when making tender. Therefore, it is ideal these increased costs are considered early in contract/tender discussions.

As an alternative to a bond, the Fund will allow the organisation in question to set up an escrow account for the equivalent of the bond amount calculated by the Fund actuary. The Fund will require satisfactory evidence of such an account particularly on the understanding that it can only be closed or terminated via mutual consent.

5.4 Initial steps: other employers

- As with transferee admission bodies, the Fund will require provision of information upon inception of any new employer
- City of Wolverhampton Council will conduct an audit to review the financial strength of the organisation based on their report and accounts and other key criteria
- A bond and/or a guarantee may be sought dependent on the organisation's circumstances

5.5 Risk mitigation

The following tools are available as part of agreeing the triennial valuation (and recovery plan contributions) or to manage risk presented by changes to the employer covenant.

5.5.1 Shortened time horizon

The Fund reserves the right to shorten the time horizon for funding set out in the *Funding Strategy Statement* (FSS), where appropriate, dependent on the strength of the employer's covenant, its financial stability and future prospects.

In doing so, the Fund makes provision for any potential liability to be recouped over a shorter timescale, particularly where there is a risk the body in question may cease to exist. The shortening of the time horizon will increase employer contributions and the impact of this on the employer will be considered in terms of its affordability.

5.5.2 Higher likelihood of success

Consistent with the *Funding Strategy Statement* (FSS), the funding objective for triennial actuarial valuations is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay. In conjunction with the Fund actuary, the Fund sets a 'likelihood of success' of achieving the funding target for each employer, which reflects the characteristics of that employer (including the associated level of covenant risk) and impacts contribution outcomes.

In practice, each employer's position is assessed separately and their individual rates take into account the differing circumstances of each employer and the funding plan covered in the FSS.

It is an avenue open to the Fund that contributions for an employer, where there is a weak employer covenant and an associated concern, could be set relative to the funding target in excess of 100% of the liabilities. This higher target represents a risk premium against potential additional liabilities on failure of that employer. For example, the employer contributions could be based upon a funding target of 110% of projected accrued liabilities or set dependant upon the Fund's view towards each employer's risk.

As part of the 2019 actuarial valuation, employers have been allocated a risk category which drives the inclusion and level of a volatility reserve to increase the funding target for some employers.

5.5.3 **Contingent assets and security**

Contingent assets are assets which exist upon the occurrence of one or more specified future events, at the bequest of the Fund – for instance, the failure to achieve a specified funding level. They are not included as scheme assets, for the purpose of assessing whether a scheme meets its funding target, until they are transferred to the scheme. Examples of contingent assets include:

- a known guarantor (existing employer), which agrees to cover all liabilities, or a proportion of those liabilities, arising upon termination (the contingent event). This can take place through the absorption of those liabilities by the guarantor to form part of its own liabilities or through the payment of a specified amount.
- security over other assets – for instance, property or securities, such that the asset is transferred to the Fund if the contingent event occurs.
- a bank guarantee – legal agreement from a bank (or other financial institution) to cover a specified amount payable on the contingent event.
- a letter of credit or a bond (see 5.3).
- sterling cash put aside in a bank account whereby some or all of the cash would be released to the Fund on the occurrence of the contingent event – for example, an escrow account.

5.5.4 **Insurance arrangements**

It may be possible for the Fund to insure against the risk exposure of individual employers or certain defined benefits. Examples of these arrangements include buy-outs (involving a financial transfer to an appropriate financial institution whereby the sponsoring employer/Fund pays a fixed amount to free itself from liabilities relating to the specified arrangement) or insurance of ill-health costs (to protect employers exposed to the significant strain of costs arising from ill-health early retirement).

5.5.5 **Contribution affordability**

Through assessment and dialogue with employers, as part of each triennial valuation, the Fund will consider contribution affordability. Where issues are identified, the Fund will consider phasing any increases in contribution rates.

6 EMPLOYER RISK EVENT

6.1 **Treatment of materialised risk**

The Fund recognises that there will be instances where, despite the monitoring of employer covenant and steps taken to both manage and mitigate risk (where practical), this risk may materialise. As identified previously, the principal risk facing the West Midlands Pension Fund is the inability of an employer to be able to meet its liabilities upon cessation. Therefore, a prescribed set of measures have been agreed to respond to this eventuality to minimise the impact on the Fund.

6.2 **Cessation of an employer with the Fund**

In the event of cessation, for any one of the reasons covered in section 2.3, it will be necessary for the Fund actuary to calculate the associated deficit on an ongoing or a least-risk basis (dependent on the circumstances of that employer and in accordance with the *Funding Strategy Statement* and associated *Termination Policy*). The organisation in question will be responsible for paying the actuary's fee for this work, unless in exceptional financial circumstances, whereby the Fund takes the view the cost will be absorbed by the Fund.

The Fund will request payment of the total deficit upon cessation; however, in certain circumstances it may not be possible for an organisation to pay the total cessation liabilities in one lump-sum. In this scenario, the Fund would request the organisation provides in the first instance evidence of their financial position and prospects, eg, latest management accounts and may, in certain circumstances, at the discretion of the administering authority, and based on the advice of the actuary, enable an exit payment plan.

6.3 Admission bodies

6.3.1 Closed admission agreement where no active members remain in the Fund
A closed admission agreement relates only to a fixed population of employees. Only those employees who transferred to the organisation from the outsourcing employing body can remain members of the LGPS through the admission agreement. Therefore, upon cessation of the last active member of a closed agreement, no further active members can be admitted and the approach for such cases would be the same as with 'Cessation of an employer with the Fund' detailed in section 6.2.

6.3.2 Open admission agreement where no active members remain in the Fund
An open agreement allows any employee of the contractor involved in the provision of the outsourced services to become a member of the LGPS. For example, new recruits the contractor employs in the provision of the outsourced service may become members of the LGPS.

Where an admission agreement is open (or for scheme employers) and the last active member ceases membership of the scheme, the Fund will approach the relevant employer with regards to its intentions for bringing in new active members. Where an intention to allow new active members to join the scheme is identified, the Fund's policy is to allow the employer six months from the date the active member left to admit such members. During this six-month period, the Fund will require continued payment of any deficit recovery contributions payable by the employer.

In the event an employer with an open admission agreement, or a scheme employer exceeds the six-month period without any active members having joined the scheme under that agreement, the employer will cease participation in the scheme and notified by the Fund accordingly.

6.4 Winding-up, insolvency, or cessation of an employer

In the event an employer ceases to exist, the Fund would act as a creditor and appoint an agent to reclaim monies owed by whatever means necessary.

The Fund expects early engagement from employers when they are approaching financial difficulty, and the Fund may consider appointing their own advisors with regards to securing the debt. The Fund will seek to exercise all rights as main creditor of the employer where appropriate to do so.

6.5 Independent financial and governance standing review by third party auditor

In addition to the Fund taking preventative steps towards risk and responding as it sees is appropriate to address materialising risk, it may be necessary for the Fund to appoint a third party agent to provide advice and potentially conduct an independent review. This review would be centred upon the financial measures and wider governance integrity of the organisation, particularly with a view to instances of substandard management or negligent practice.

The appraisal also provides the Fund with an external audit of the monitoring and risk aversion process employed, which is aimed at preserving the interests of all other participating employers.

The key objectives of this review will be to evaluate the financial standing and underlying governance arrangements, specifically:

- an assessment of the strength of the balance sheet and, based on this, drawing conclusions on the reasonableness of proposed termination payments. This element of the review will include, for example, structure/liquidity ratios; and
- a high-level evaluation of the body's overall governance structures and the adequacy of management's medium term planning arrangements in addressing weaknesses and risks; and
- to develop an assessment methodology that can be applied to employers in assessing their capability and capacity to continue to manage and meet pension liabilities in the future.

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