

Watford Community Housing eliminates its LGPS cessation debt risk with First Actuarial's help



Key outcomes



First Actuarial finds an innovative way to eliminate the cessation debt risk entirely



Freed up from the risk of debt, WCH can focus its funding on social housing



A great people outcome – Keeping the LGPS open for current members

The risk of a significant cessation debt hung over Watford Community Housing (WCH) as the number of its employees participating in the Local Government Pension Scheme (LGPS) diminished. WCH asked First Actuarial to find an approach to mitigate this risk.

A number of years ago, Watford Borough Council transferred its social housing stock to WCH. "The process gave us LGPS pension obligations for the 80 Council staff who moved across," says Paul Richmond, Group Director of Finance and Resources at Watford Community Housing. "But within a few years, we had fewer than five active LGPS members left."

The challenge | Imminent risk of c.£3 million cessation debt

This decrease in membership presented WCH with a significant risk. Were the organisation's LGPS membership to reduce to zero, then a significant one-off payment, a cessation debt, would be triggered.

"We were facing a bill of around £3 million," says Paul, "which would have diverted much-needed funds from our core mission to build and maintain homes in the community, and it could have happened at any moment."

WCH had more than enough money in the Scheme to cover the expected pension benefits on an ongoing valuation basis (approximately £2 million) but due to LGPS cessation regulations, a cessation debt payment estimated at £3 million loomed. Understandably, WCH's Board wished to reduce this exposure.

The solution | Transferring LGPS surplus and cessation debt risk back to the Council

Already aware of the risk, First Actuarial had been carrying out regular valuations for some time, to monitor WCH's LGPS funding position and identify the best time to take action. They had also advised WCH to open up a line of communication with the Council about the cessation debt.

First Actuarial attended a number of WCH's Board meetings. "They guided Board members, none of whom had specialist knowledge of pensions, through this complex area," says Paul.

continues Paul. "And as the number of active participants in this scheme decreased, we worked more closely with First Actuarial, as we knew we were fast approaching a decision point."

Having considered various strategies, such as increasing the number of employees in the LGPS – which would have both increased the liability and extended its duration – First Actuarial took a step back to think about the problem more creatively.

"First Actuarial provided regular reviews and helped us map out various options,"

► First Actuarial proposes an innovative solution

First Actuarial looked at WCH's c.£2 million LGPS surplus, and realised that passing it back to the Council would benefit both parties.

"We approached Watford Borough Council and Hertfordshire County Council, the funding administrator," says Paul. "And we suggested moving the surplus back to Watford Borough Council, where it would remain on an ongoing basis within the LGPS, so it would never face a cessation debt."

A series of negotiation meetings followed. "First Actuarial consultants were instrumental in reviewing and shaping the structure of the deal," says Paul. "They were able to advise us while at the same time considering how the scheme would

work for all parties. They cut through the technical complexity to communicate the impact clearly."

First Actuarial provided advice and guidance to WCH's Board on a regular basis throughout the negotiations. "They clarified the opportunities and risks, and made recommendations," says Paul. "Then finally, we had a final agreement to take to the Board for signing."

With a signed agreement in place, WCH no longer faced the cessation debt risk. Watford Borough Council took on the surplus, to the benefit of its overall funding plans for future pension liabilities. It was a clear win-win for all parties.

The outcome | A win-win arrangement for WCH, the Council, local community and staff

► An innovative way to eliminate the cessation debt risk

First Actuarial came up with an innovative LGPS arrangement that eliminates the cessation debt risk from WCH's governance arrangements and risk register. We're no longer facing a sudden cliff-edge

payment when the last member leaves the organisation," says Paul. "And we've also helped Watford Borough Council improve its overall pension funding position."

► Freeing up funding for social housing

Removing the threat of the cessation debt frees up WCH to focus on its core activities. "Closing the scheme would have incurred a cost of around £3m," says Paul. "That would have taken a lot of money out of our business.

We are a not-for-profit organisation. We need that funding to develop new homes, improve the quality of our existing stock and invest in community ventures."

► A great people outcome – Keeping the LGPS open for employees

The solution First Actuarial delivered was great news for employees. "We seriously considered closing the scheme at one stage," says Paul. "Instead, those employees who originally transferred from

the Council can continue to participate in the Scheme for as long as they wish. We worked hard to get a solution that would benefit staff – it's a really positive HR message."



First Actuarial are very approachable. They're good at helping managers and Board members digest a very complex and difficult area, and they've also been proactive in helping us shape an innovative solution.

Paul Richmond,
Group Director of
Finance and Resources,
Watford Community Housing

