Options for unions to manage SUSS exposure and risk

Introduction

SUSS is a complex, multi-employer pension scheme which is non-segregated – i.e. all of the assets are pooled for the benefits of all members – there is no separation (notional or otherwise) of assets allocated to individual unions[1].

This means, at least to some extent, under the current structure, all employers are "in it together". Deficits are paid off over the same period for all, regardless of the fact that some could afford to pay more quickly. The same investment strategy (and hence level of investment risk) applies to each employer, even though individual employers may have different risk tolerances and preferences.

This structure has benefits for members of SUSS (i.e. the individual pensioners and deferred pensions) – in particular the security of members' benefits. Regardless of the union(s) a member worked for, all unions that participate in SUSS have collective responsibility to ensure the benefits are paid for all members. However, by its nature the structure does limit the ability for unions to manage and control the risk within SUSS, compared to (say) the case within a single employer, or indeed a segregated pension scheme. For more on the collective responsibility principle on which SUSS has always been established, see this note.

The SUSS Trustees are committed to allowing options to help individual unions manage the risk within SUSS, so long as that can be done in a way that doesn't endanger the security of members' benefits, or create a situation which seems unfair on other unions.

This section of the website looks at the options that are available to unions with SUSS currently, to try to help with this. There are four options that the Trustees consider to be viable, which are:

1) Bulk transfer

Transferring a share of your liabilities out of SUSS, and into another pension arrangement.

See separate page How a bulk transfer from SUSS works.

2) Enhanced transfer values

Topping up individual transfer values from SUSS for members who want to transfer out.

See separate page How to arrange enhanced transfer values for your SUSS members *(document coming soon)*.

3) Paying the 'Section 75' debt

This is the ultimate option for unions, in the sense that if you pay the "section 75 debt" that employers have to pay on exiting a pension scheme, you have no further liability to SUSS.

The "section 75 debt" amount is calculated based on the amount that would be needed to secure all of your liabilities with an insurance company (on top of your share of the assets within SUSS). Here "your

[1] "Employers" and "unions" is used interchangeably throughout this note, but refers to any organisation that is a statutory employer in SUSS, i.e. one that has SUSS members who were former employees for some or all of their time in the Scheme and that has not formally exited from the Scheme.

liabilities" means the benefits for members in respect of service with your union, along with your share of any "orphan liabilities" within SUSS.

Because insurance companies only have one chance to get the money to secure benefits, they have to ask for amount that is very certain to be enough (compare this with a pension scheme like SUSS, that can come back to the unions later to ask for more money if things end up costing more than expected). This means that the section 75 debt calculation used will usually be higher than your share of the SUSS deficit, which your regular contributions are paying off, but the figure can be volatile as market conditions vary, so it can be useful to keep track of your section 75 debt figure, to see if there is a time when it appears affordable.

Note that in practice the calculation is likely to be an estimate of the cost of securing benefits with an insurance company, and the Trustees are also unlikely to actually purchase an insurance policy to cover those benefits. This is because purchasing an insurance policy is a long, complicated, and costly exercise, and only likely to be appropriate for a large number of members. That said, the section 75 debt calculation will include an allowance for expenses – both those of the exercise at the time, and future scheme expenses (including ultimate purchase of insurance policy – which will happen eventually, if not immediately). Allowance may also be made for some future payments that are attributable to the exiting employer, such as their share of any PPF levies due.

4) Upfront deficit payments

As you will be aware, the Trustees do allow some flexibility for unions that can afford to pay more than the minimum, by allowing upfront deficit payments. This is allowed in periods of three years to tie in with the actuarial valuation schedule – so unions can pay upfront contributions to cover one or more "inter-valuation periods".

If you pay for one period (three years), then you will be correctly in line with other unions at the time of the next valuation. For unions that choose to pay upfront for more than one period, there is still a chance of paying deficit contributions at subsequent valuations. The deficit will fluctuate from valuation to valuation with market conditions, so to the extent that the deficit is higher than predicted at the next valuation, you would need to pay for your share of the increase in deficit.

Unions wishing to take this option should understand that whilst you will get credit for the extra paid at future actuarial valuations, there are circumstances in which the legal structure of SUSS will override this, and so the value of extra paid in by one union must get shared with them all – for example were SUSS to wind up, all of the assets within SUSS are shared across all members, regardless of their source.

Where to go to find out more

If you are interested in finding out more about any of these options, please contact the Trustees via SUSS@weareigg.com.