

Who is eligible / Application procedures

Participation FAQs

Employer Debt

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Regulations

In September 2005 the government introduced legislation which means an employer cannot withdraw from a multi-employer scheme (such as USS) without funding to a specified level its share of any pension liability in the scheme. The funding level specified is the amount required to buy-out the liabilities with an insurance company, and is commonly known as the buy-out debt or section 75 debt.

How the employer debt regulations are activated

A buy-out debt will become due when one of the following events occur (referred to as cessation events):

- an employer's last remaining active member of the scheme ceases to be active for any reason;
- an employer's identity changes and its assets and undertakings transfer to a new organisation or entity;
- an employer withdraws from the scheme, as it no longer wishes to participate in USS (which would cause all of its members to cease to be active members of the scheme).

The above is not an exhaustive list. The debt due to the scheme is calculated as at the cessation date and unless the scheme is fully funded on a buy-out basis there will be a sum of money due to the scheme from the employer.

Where an employer is aware that it is likely to trigger a cessation event, USS can provide provisional calculations to give an indication of what the value of the debt.

In limited circumstances, the trustee company may consider entering into an arrangement to apportion some or all of the debt to another employer.

How much will the debt be?

It is almost impossible to give a realistic figure until a cessation event occurs. The scheme will carry out a valuation of the benefits earned by current and former members at the date of exit, or the date on which the employer ceased to have any employees.

This valuation of the benefits is then compared with the funding position of the scheme. If the scheme is in deficit the employer must make good its portion of this deficit as a lump sum payment to USS.

Under current regulations this would apply even if there were simply a gap between the last eligible employee leaving and a new eligible employee being recruited, although there can be a period of grace of 12 months (possibly longer, subject to trustee company consent) whilst a new eligible employee is recruited.

The debt could potentially be a very large payment and each prospective employer should consider very carefully whether it is willing to accept this level of potential liability.

Guarantees

In light of these regulations and the continued commitment of USS to act in members' best interests, it is a requirement of participation for non-university employers to provide a guarantor.

In many cases this can be obtained from a 'host' employer as often new companies wishing to participate are associated with a university, although each case will be considered on the security of the guarantee provided.

For applications where no such association exists an alternative guarantee must be provided before a new employer can be accepted into USS.

A bank guarantee may not be feasible as the amount being guaranteed is not set; the

value can vary over time as a result of changing market conditions and movements in membership. USS may be willing to consider other guarantees, possibly from other non-university bodies and each case will be considered on its merits having a view to the financial strength of both the employer wishing to participate and the guarantee being provided.

Regrettably, if no suitable guarantee is available applications will be rejected and employers will need to make other pension arrangements for their employees.



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