

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	PENSION FUND LIABILITY UPDATE		
DATE OF DECISION:	13 th November 2017		
REPORT OF:	SERVICE DIRECTOR: FINANCE AND COMMERCIALISATION		
<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY			
N/A			
BRIEF SUMMARY			
<p>At the Governance Committee meeting on 24th July 2017 the committee approved the 2016/17 Final Accounts. Further information was requested with regards to the Pension Fund and the outstanding reported liability.</p> <p>This briefing paper seeks to provide clarification of the pension fund liability as at the 31st March 2017 and the supporting information.</p>			
RECOMMENDATIONS:			
	(i)	To note the Pension Fund Position Statement as at the 31 st March 2017.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	No further approval is required, the briefing paper is for information purposes only.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	N/A		
DETAIL (Including consultation carried out)			
Background			
3.	<p>Under Local Government Pension Scheme (LGPS) regulations there is a requirement that actuarial valuations are undertaken every three years. Valuations are carried out at a given point in time to assess:</p> <ul style="list-style-type: none"> • the value of pension liabilities the fund is responsible for; • the assets the pension fund has under its control to meet those liabilities; • the corresponding funding level and any deficit contributions required; and • the cost of future benefit accrual. 		

	<ul style="list-style-type: none"> • The actuary for each local fund will value the assets and liabilities of their fund taking into account a set of assumptions and principles which may vary between valuations. • The cost of future benefit accrual is shared between the employers and the members of the scheme. While member contributions are set out in LGPS regulations, the employers pay the net cost of future benefit accrual once the member contributions have been deducted.
4.	The cost of providing future service benefits is known as the employer's "primary rate" and this is then adjusted by each employer's "secondary rate" to fund any deficit.
5.	The results of the 31 March 2016 LGPS valuations determined the contribution rates payable for the three years commencing April 2017 and the deficit contribution rates agreed will aim to remove the shortfall between each participating employer's (notional) share of LGPS assets and liabilities over the duration of the recovery period. The scheduled body contributions for SCC are 14.1% 2017/18, 15.1% 2018/19 and 16.1% 2019/20. These rate increases already form part of the approved Medium Term Financial Strategy approved by Council February 2017.
Pension Liability	
6.	The year-end position on the Pension Reserve showed a movement on the Council's liability from £366.84M as at the end of 2015/16 increasing to £424.96M at the end of 2016/17 an increase of £58.12M.
7.	<p>The council's liability is affected by a number of factors but cover issues such as:</p> <ul style="list-style-type: none"> • Changes in the number of employees in the scheme, with the introduction of auto enrolment the council has seen an increase in the take up of the pension scheme; • The age of the staff in the pension scheme; • Pension Fund Performance; • Interest Rates; • Any changes in the baseline assumptions; and • Triannual Actuarial Review and update.
8.	The Pension Liability Reserve recognises the difference between the benefits that have been accrued for past and current employees and the resources the Council has put aside to pay for those benefits.
9.	Each year the fund is impacted by new benefits accrued by current and past employees; payments of interest costs; payments to the pension fund; and is adjusted by an annual actuarial valuation on the fund which could be a gain or a loss.
10.	The following table shows the change in the liability for the year ending 31st March 2017:

11.	<p>Table1 – Pension Liability 31st March 2017</p> <table border="1" data-bbox="360 250 1369 739"> <thead> <tr> <th data-bbox="360 250 571 304">2015/16</th> <th data-bbox="571 250 1166 304"></th> <th data-bbox="1166 250 1369 304">2016/17</th> </tr> <tr> <th data-bbox="360 304 571 358">£M</th> <th data-bbox="571 304 1166 358"></th> <th data-bbox="1166 304 1369 358">£M</th> </tr> </thead> <tbody> <tr> <td data-bbox="360 358 571 412">390.70</td> <td data-bbox="571 358 1166 412">Balance Brought Forward</td> <td data-bbox="1166 358 1369 412">366.84</td> </tr> <tr> <td data-bbox="360 412 571 465">21.09</td> <td data-bbox="571 412 1166 465">Current Service Cost</td> <td data-bbox="1166 412 1369 465">23.15</td> </tr> <tr> <td data-bbox="360 465 571 519">0.96</td> <td data-bbox="571 465 1166 519">Past Service Costs (added years)</td> <td data-bbox="1166 465 1369 519">2.59</td> </tr> <tr> <td data-bbox="360 519 571 573">12.16</td> <td data-bbox="571 519 1166 573">Net Interest Costs</td> <td data-bbox="1166 519 1369 573">12.05</td> </tr> <tr> <td data-bbox="360 573 571 627">(22.00)</td> <td data-bbox="571 573 1166 627">Payments to Pension Fund</td> <td data-bbox="1166 573 1369 627">(24.90)</td> </tr> <tr> <td data-bbox="360 627 571 680">(36.07)</td> <td data-bbox="571 627 1166 680">Actuarial (Gains)/Losses on the fund</td> <td data-bbox="1166 627 1369 680">45.23</td> </tr> <tr> <td data-bbox="360 680 571 739">366.84</td> <td data-bbox="571 680 1166 739">Balance to Carry Forward</td> <td data-bbox="1166 680 1369 739">424.96</td> </tr> </tbody> </table>	2015/16		2016/17	£M		£M	390.70	Balance Brought Forward	366.84	21.09	Current Service Cost	23.15	0.96	Past Service Costs (added years)	2.59	12.16	Net Interest Costs	12.05	(22.00)	Payments to Pension Fund	(24.90)	(36.07)	Actuarial (Gains)/Losses on the fund	45.23	366.84	Balance to Carry Forward	424.96
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12.	<p>It should be noted that the statutory requirements of the pension fund will ensure that the funding will have been put aside by the time the benefits have to be paid out. The scheme actuary calculates the employer contributions that are required, along with ongoing payments from employees over their remaining working life, to ensure the full liability can be met when it falls due.</p>																											
13.	<p>The biggest change to the overall liability in the above table is in relation to the Actuarial valuation on the fund of £45.23M. This is further broken down in table 2 below:</p>																											
14.	<p>Table 2 – Breakdown of Actuarial Loss 2016/17</p> <table border="1" data-bbox="296 1216 1418 1693"> <thead> <tr> <th data-bbox="296 1216 528 1314">2015/16 £M</th> <th data-bbox="528 1216 1230 1314"></th> <th data-bbox="1230 1216 1418 1314">2016/17 £M</th> </tr> </thead> <tbody> <tr> <td data-bbox="296 1314 528 1368">10.94</td> <td data-bbox="528 1314 1230 1368">Actuarial (Gains)/Losses on plan assets</td> <td data-bbox="1230 1314 1418 1368">(125.72)</td> </tr> <tr> <td data-bbox="296 1368 528 1458">(10.05)</td> <td data-bbox="528 1368 1230 1458">Actuarial (Gains)/Losses on liabilities – experience</td> <td data-bbox="1230 1368 1418 1458">(25.47)</td> </tr> <tr> <td data-bbox="296 1458 528 1547">0</td> <td data-bbox="528 1458 1230 1547">Actuarial (Gains)/Losses on plan assets – demographic assumptions</td> <td data-bbox="1230 1458 1418 1547">(11.28)</td> </tr> <tr> <td data-bbox="296 1547 528 1637">(36.96)</td> <td data-bbox="528 1547 1230 1637">Actuarial (Gains)/Losses on plan assets – financial assumptions</td> <td data-bbox="1230 1547 1418 1637">207.70</td> </tr> <tr> <td data-bbox="296 1637 528 1693">(36.07)</td> <td data-bbox="528 1637 1230 1693">Total Actuarial (Gain)/Loss</td> <td data-bbox="1230 1637 1418 1693">45.23</td> </tr> </tbody> </table>	2015/16 £M		2016/17 £M	10.94	Actuarial (Gains)/Losses on plan assets	(125.72)	(10.05)	Actuarial (Gains)/Losses on liabilities – experience	(25.47)	0	Actuarial (Gains)/Losses on plan assets – demographic assumptions	(11.28)	(36.96)	Actuarial (Gains)/Losses on plan assets – financial assumptions	207.70	(36.07)	Total Actuarial (Gain)/Loss	45.23									
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15.	<p>Table 2 above shows that changes in the actuarial financial assumptions have had a significant impact giving an overall actuarial loss.</p>																											
16.	<p>The financial assumptions are set as part of the Triannual Review to establish the overall employer contributions that are required but the actual position is reported each year in an annual accounting results schedule produced by the scheme actuary. Table 3 below details the changes in financial assumptions between 2015/16 and 2016/17.</p>																											

Table 3 – Financial Assumptions			
		2015/16	2016/17
	RPI Inflation	2.9%	3.1%
	CPI	1.8%	2.0%
	Rate of General long-term increase in salaries	3.3%	3.5%
	Rate of Increase in Pension Payments	1.8%	2.0%
	Pension Accounts Revaluation rate	1.8%	2.0%
	Rate of Increase to deferred pensions	1.8%	2.0%
	Discount Factor	3.4%	2.6%
	Take up option to convert to lump sum payment (Commutation)	70.0%	70.0%
17.	With the exception of the Commutation % all other factors are more adverse than the previous year.		
18.	The discount rate is also lower than in 2015/16. In this case a lower % is actually an adverse position in terms of the overall fund. The discount rate is each local fund's expected future long term rate of investment return and forms part of assessing what the value of the fund will be. This is a key assumption for the valuation as the lower the assumed investment returns over the long term the lower the discount rate, which in turn means that more money is needed today to meet future LGPS liabilities.		
The Other Actuarial Categories Explained			
19.	<p>Plan assets are held by the fund that aim to maximise, within set parameters, an annual investment return. These can include investments in:</p> <ul style="list-style-type: none"> • Equities; • Property; • Government and/or Corporate Bonds; and • Cash. <p>The assumptions around performance and value of assets are taken into account in the calculation of the value of the fund and the overall pension liability.</p>		
20.	Experience Assumptions relate to the review of the historical position i.e. what has happened and how this may impact on future assumptions. This looks at membership date, the number of people in the fund (active and deferred), the payroll cost and the actual number of pensioners and dependants. It also review the actual impact of financial assumptions. It also looks at whether there has been any change in the pension structure in the review period.		
21.	<p>The demographic assumptions in an LGPS valuation relate to the probability that pensions will be paid, under what circumstances they will be paid and for how long they will be paid. The demographic assumptions used to calculate LGPS liabilities include;</p> <ul style="list-style-type: none"> • death in service; • death in retirement; • ill health retirement; • early retirement; 		

	<ul style="list-style-type: none"> • normal retirement; • leavers with a deferred pension or opt outs; • life expectancy or mortality; • proportion of members who are married; • take up of cash commutation; and • age difference between members and their partners.
Membership of the Scheme	
22.	<p>Employees of the Council are predominantly member of two separate pensions schemes;</p> <ul style="list-style-type: none"> • Teachers' Pension Scheme • Local Government Pension Scheme
23.	<p>The Teachers' Pension Scheme operates in a way that it is not possible for the liabilities for benefits accruing under these schemes to be identified specifically to the council. As such it is not possible for provision for future payment of benefits for this scheme to be made.</p>
24.	<p>In addition to the above, as at the 31st March 2017 the Council's Strategic Service Partner Capita had admitted body status within the Hampshire Pension Fund. The staff that transferred to Capita were treated as being part of Southampton City Council for accounting and reporting purposes in respect of pensions i.e. are part of the overall pension liability.</p>
25.	<p>Following the reset of the Capita Contract a new company was established in 2016/17, Capita Southampton Ltd (CSL). As a result of this the existing Capita Admission agreement with the Hampshire Pension Fund ceased on the 1st April 2017.</p>
26.	<p>Additionally, the Property Service function has transferred back to the Council.</p>
27.	<p>As a result of the above:</p> <ul style="list-style-type: none"> • Property Staff continue to be part of the scheduled body for the Council i.e. Accrued liabilities for active members will transfer to SCC and remain in the Scheduled Body Group (SBG) and Capita employees not currently eligible for Fund membership will, as SCC employees post transfer, be eligible for Fund membership and will be auto-enrolled as required; • A new admission agreement has been drawn up for CSL; and • 5 employees have not transferred to CSL or the back to the council and remain part of Capita Business Solutions Ltd (CBSL). Therefore a further new admission agreement has been established for these staff.
28.	<p>There is no impact on the pension liability statement for 2016/17 in relation to these changes and has had no impact on the movement in the pension liability for last financial year.</p>
29.	<p>Under the new admission agreements, pension liabilities that have accrued prior to the commencement date remain with the Council with the new admitted bodies accruing future pension liabilities from the point of transfer.</p>
30.	<p>Any impact on the overall pension liability at the end of 2017/18 will be factored into the annual accounting results schedule as at the 31st March 2018. But it should be noted that no additional past pension liabilities have been added as</p>

	these have always been included within the Council's reported figures.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
31.	As noted in the report.
<u>Property/Other</u>	
32.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
33.	None
<u>Other Legal Implications:</u>	
34.	None
RISK MANAGEMENT IMPLICATIONS	
35.	None
POLICY FRAMEWORK IMPLICATIONS	
36.	None
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	N/A
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	None
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	No
Other Background Documents	
Other Background documents available for inspection at:	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None