

Managing your LGPS costs and risks

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Agenda

1. Funding & outsourcing
2. Ill health liability insurance
3. Multi Academy Trusts
4. FRS102 Accounting
5. Training

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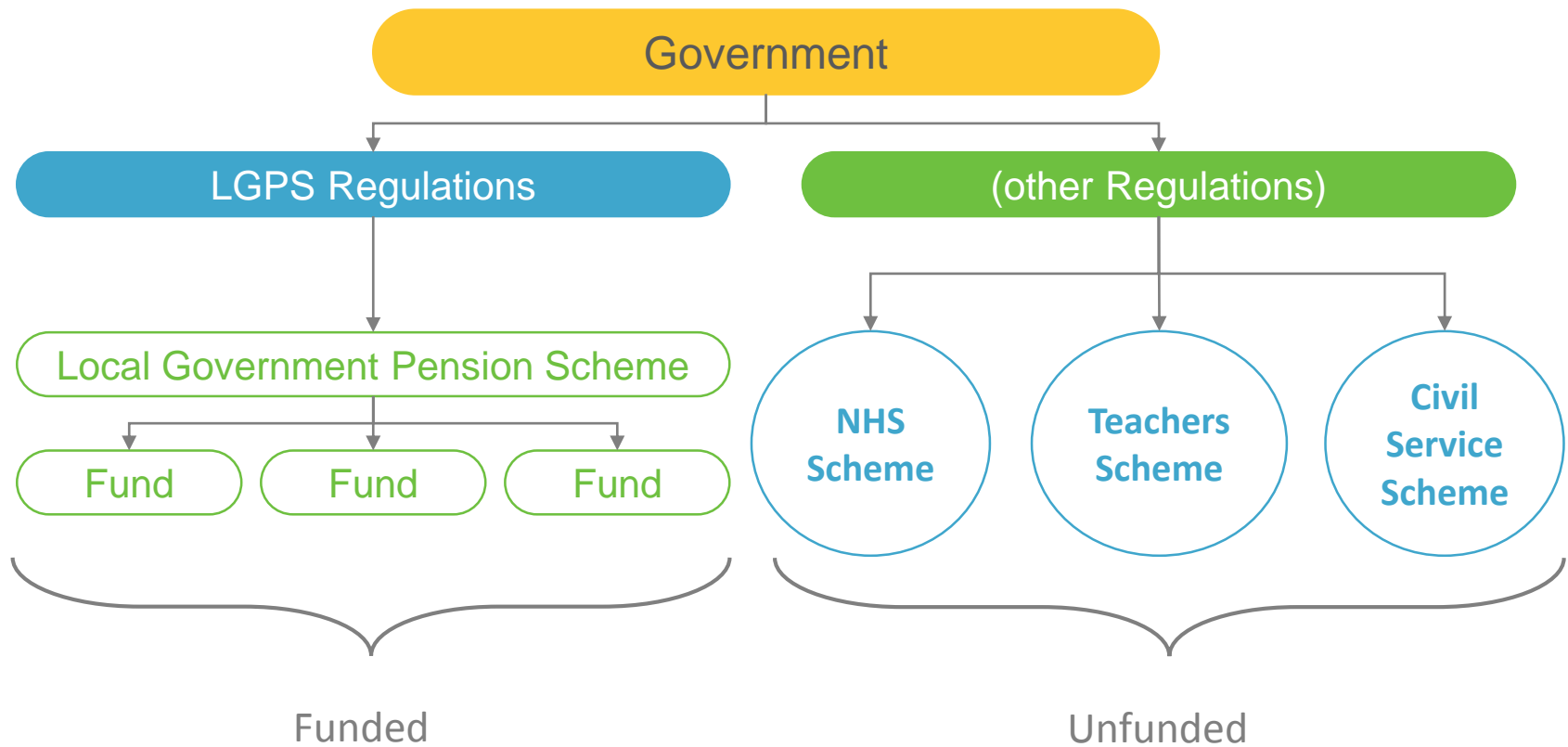
Funding & outsourcing

Douglas Green

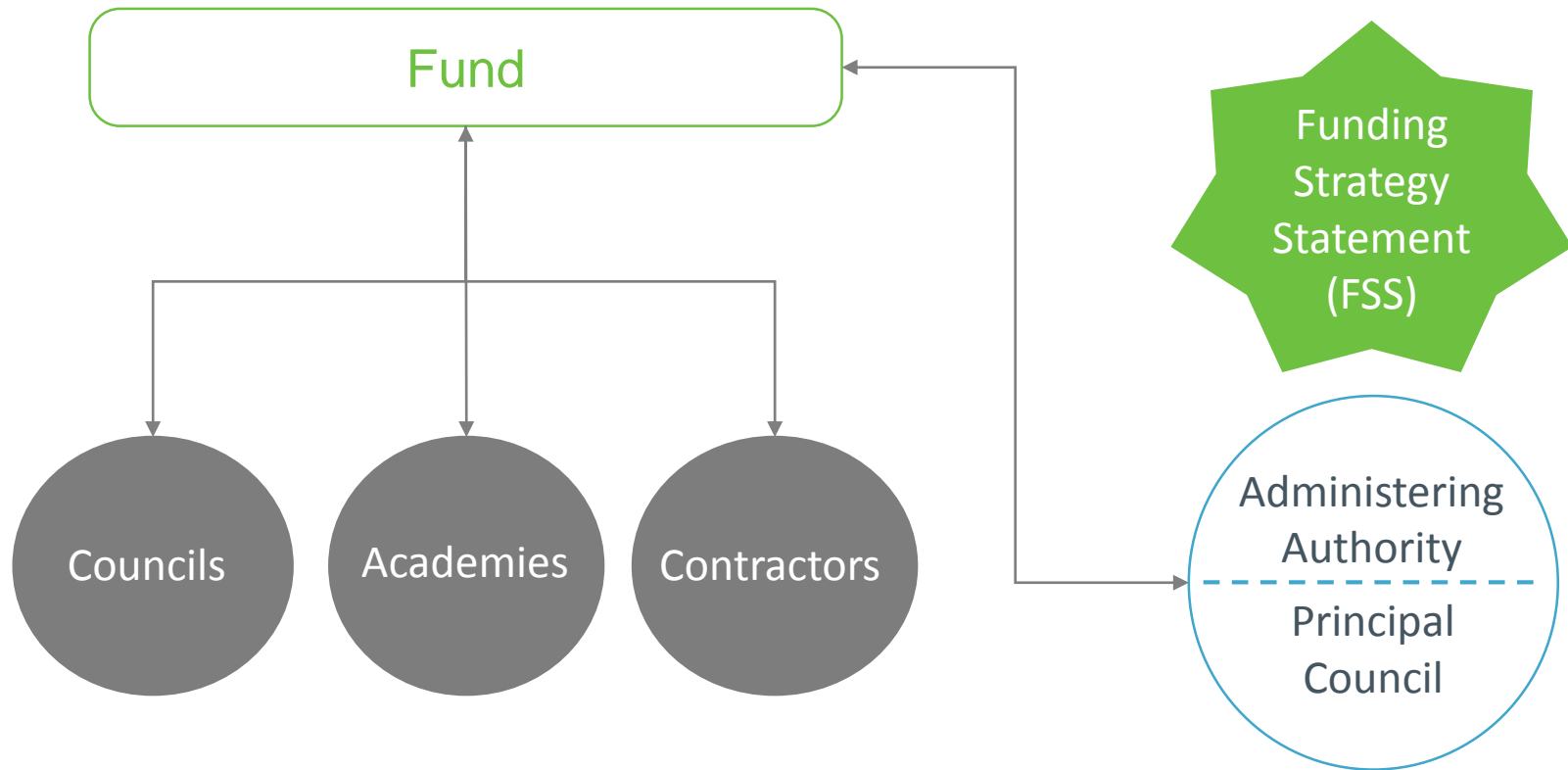
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The public sector pensions landscape

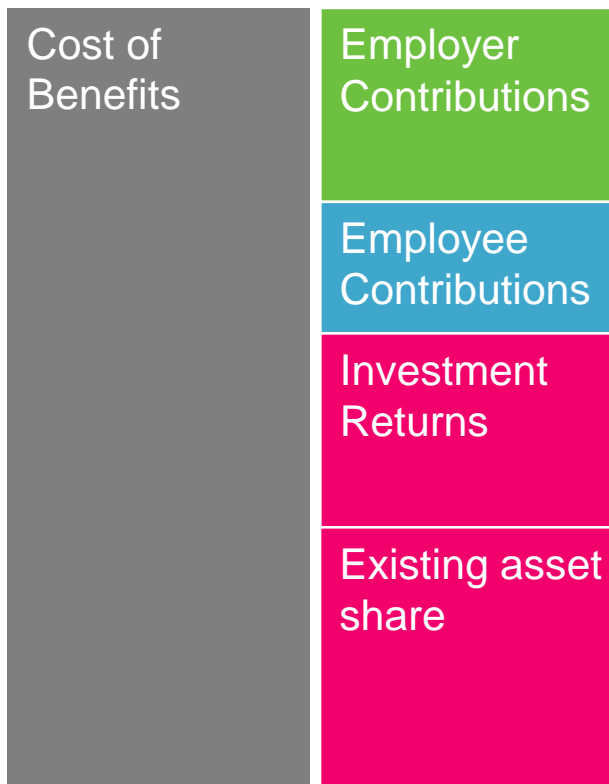


LGPS Fund level



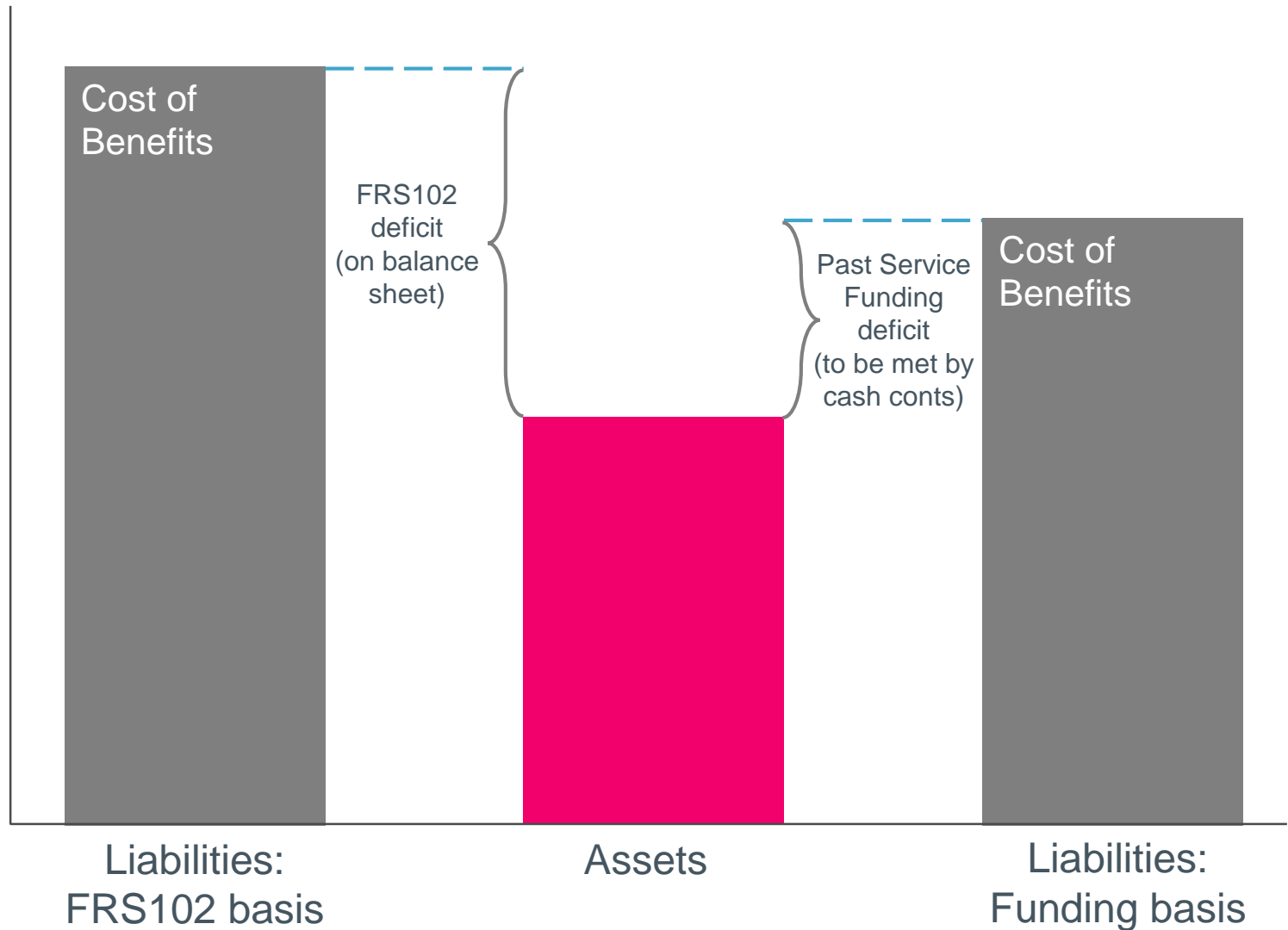
31 March 2016 funding valuation

- Carried out every 3 years
- To estimate how much money will be needed to pay the benefits
- Benefits and employee contributions are set by Regulations
- Estimate future investment returns
- Employer contributions in effect “balancing item”
- Employer contributions set for next 3 years (from 1 April 2017)



Each academy responsible for own “patch” within the Pension Fund

Different assumptions: different results



Outsourcings – pension considerations

- Academy is a “Scheduled Body” in the LGPS Regulations
- So it is ultimately liable for pension costs of outsourced employees
- Various options open to academies:
 - treat contractor as stand-alone?
 - pool with contractor?
 - contractor pays fixed rate? (“pass-through”)
- Speak to Academy’s LGPS contact **at the start** of outsourcing to ensure best value



Don't leave it to the end!

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Ill health liability insurance

Martin Curran

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Ill health early retirement

Tier 1

Not returning to work before SPA

Immediate payment of accrued pension plus 100% of expected future service to retirement

Tier 2

Not returning to work for at least 3 years but before SPA

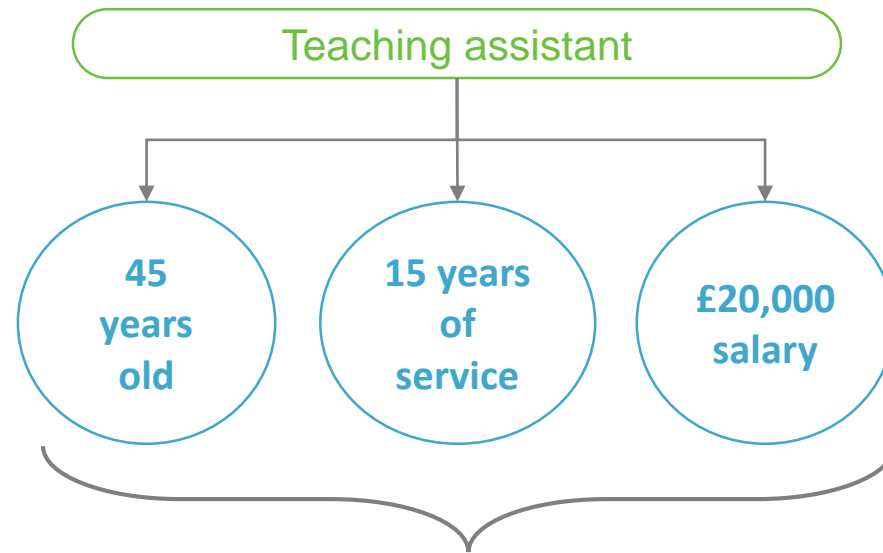
Immediate payment of accrued pension plus 25% of expected future service to retirement

Tier 3

Expected to return to work within 3 years

Immediate payment of accrued pension – payable for up to 3 years

Ill health cost challenges – an example



Tier 1 ill health pension £13,000 p.a.

Strain cost to academy= £235,000

Cost must be met by academy!

Ill Health Liability Insurance

- Developed at the request of LGPS funds to help employers.
- Insurance provided Legal & General and administered by Hymans Robertson
- Removes the risk of the unaffordable cost of unexpected ill health early retirements.
- Covers strain costs in the event of a tier 1 or tier 2 ill health retirement

Largest claim amount = £793k



Next steps

- Quotations are **free**
- Premium rates typically **c1%** of pay
- Premium **may** be offset against employer contribution rate
- Available to **all** academies

To find out more, please contact:



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Multi Academy Trusts

Douglas Green

19 September 2017

Combine MAT within one Fund?

Separate contribution rates per school, or combined single rate across whole MAT?

	Separate	Combined
Actuary tracks each school's position	✓	?
Each school "pays its own way"	✓	X
Each school sees its own position	✓	X
Administration & costs (ongoing)	X	✓
Administration - school leaves MAT	✓	X

Combine MAT across Funds?

Leave in separate LGPS Funds...?

- Higher ongoing costs & administration
- Different contribution rates
- More complex disclosures

...or combine all MAT in one Fund?

- Costs & administration to arrange
- “All eggs in one basket”
- What if other schools join from outside that Fund?



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FRS102 Accounting

Craig Alexander
19 September 2017



Funding vs Accounting

	Triennial Funding Valuation	FRS102 Accounting
Purpose	To set cash contributions	For inclusion in Academy Accounts
Assumptions	Set by the LGPS Fund	Responsibility of the Academy
Discount rate	Based on the Fund's prudent expectation of <i>future</i> investment returns	Based on high quality corporate bond yields on the accounting date
Methodology	Based on full membership data	Projection from last funding valuation (31 March 2016)

Ensure assumptions are appropriate for your Academy






FRS102 Assumptions

Value placed on the pension liabilities (the obligations) is dependent on the assumptions adopted.

Key financial assumptions:

- **Discount rate** (based on the yield available on high quality corporate bonds *on the accounting date*)
- **Pension increase rate** (based on market implied *future* inflation expectations *on the accounting date*)
- **Salary increase rate** (*future* expectations, typically inflation +/- a margin)

What's happened since 31 August 16?

Change to	Change from 31 August 2016	Impact on Balance Sheet at 31 August 2017
Corporate bond yields	Increased by c0.4 - 0.5% p.a.	
Inflation expectations	Increased by c0.3 - 0.4% p.a.	
Investment returns	c10% over the year	
Valuation recalibration experience	LGPS Fund <u>and</u> Academy specific	
Overall impact	Academy specific	

Valuation recalibration experience likely to be key

Valuation recalibration experience

31 August 2017 FRS102 figures - rolled forward from the 2016 funding valuation results*.

So will capture each academy's actual membership experience, e.g.

- actual pay awards
- leavers and joiners

This 'experience' item will come through in the FRS102 report on both the asset and obligation side:

- could be **significant**
- could be **positive** or **negative**



* Or opening funding valuation if your academy joined the LGPS Fund after 31 March 2016

How we can help you?

- We are available for **calls** or **face-to-face meetings** with you/your auditors to allow better understanding of the accounting figures.
- We can work with your academy on **tailored accounting assumptions advice**.
- We can provide assistance on **Multi Academy Trust reporting questions** (i.e. individual academy FRS102 vs consolidated figures)

To discuss your accounting options, please contact



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5 Training

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19 September 2017

LGPS Review of Academies

- National Scheme Advisory Board (SAB) are reviewing the treatment of academies in the LGPS:
 - a) Protect members benefits: continued access to the LGPS
 - b) Ring fence liabilities of academies, councils, other employers
 - c) Improve administrative efficiency and effectiveness
 - d) Increase accuracy and reliability of data
- Not proposing bulk transfers
- **Hymans comment:** knowledge & understanding also?

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- **Hymans comment: knowledge & understanding** also?

Key take aways

- **Watch out** - the pensions impact of outsourcings
- **Consider** – how to protect yourself from ill-health early retirements
- **Be aware** – of issues within MATs
- **Get in touch** – about your FRS102 figures
- **Think about** – any knowledge & understanding requirements?

Thank you

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