FARNHAM TOWN COUNCIL

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Report
Council

Date: 12th March 2020

Pensions issues

1) Pensions Triennial Actuarial Review 2019 Outcome

The Strategy & Finance Working group considered the outcome of the Pensions Triennial Review and matters arising.

One of the benefits of the National Joint Conditions of Service contracts for FTC employees (along with most of the local councils sector) is membership of the Local Government pensions Scheme. This is a contributory scheme with employees paying between 5.5% and 12.5% depending on earning, and employers paying an agreed amount which is reviewed regularly.

Every three years, the Surrey Pensions fund is revalued, with the last such revaluation being in 2019. The revaluation takes into account the state of the investments, profile of scheme members, including the size of the pension pot, risk, life expectancy, employer history etc.

Farnham Town Council made an additional payment into the fund in 2018 to protect its position at revaluation. The 2019 review has identified that the Farnham contribution rate would increase from 14.2% to 18.7% assuming the Council joined a new pooling arrangement with other Town and parish Councils in Surrey.

As part of its new funding strategy the Surrey Pensions Fund is proposing to pool the Town and Parish Council sector to smooth the risks to the sector. This would be moving away from individual pots introduced several years ago as part of a different strategy (although prior to that all employers in Surrey were pooled into a single pool but some employers (eg school academies carried much higher risks and as such are paying employer contribution rate exceeding 30%).

As the increase in contribution rate for FTC following the Triennial Review seemed surprising, the Town Clerk asked for more detail (the Triennial Review information provided was less detailed than in previous valuations) and asked what the financial impact was if FTC decided to maintain the status quo and declined to be part of the pool. Further detail of the benefits and disbenefits of pooling are in the attached extracted Appendix H from the SCC Pensions Strategy Statement.

Although the detailed figures have yet to be supplied by the actuary, the FTC Employer contribution rate would be maintained at 14.2% if outside the pool.

To put this in context, the difference based on a salary bill of £400,000 would be an increase of contributions from £56,800 to £74,800, a potential additional £54,000 over the period of the coming triennial review.

Some elements would remain pooled whether the Town Council were in or out the pool (for example the ill-health retirement impact which would be significant for any employer).

Recommendation

Subject to any contrary information being provided prior to Council, the Strategy & Finance Working Group recommends to Council that Farnham maintains the status quo and does not join the proposed pooled arrangement at this stage.

2) Pensions Discretions Policy.

Each employer in the Local Goernment Pensions Scheme must have a discretions policy which is reviewed from time to time. The Surrey Pensions Scheme guidance on this is attached at Annex 1 and the proposed updated Discretions Policy is attached at Annex 2.

This is similar to the discretions policy adopted by Waverley Borough Council and Godalming and Haslemere Town Councils, and is essentially saying that discretions available will not be used unless in exceptional circumstances as determined by Full Council

Recommendation:

The Strategy & Finance Working Group recommends to Council that the Discretions Policy at Annex 2 be adopted.

Extract from SCC Funding Strategy Statement

Appendix H – Town and Parish Council Pool

This document provides details of the Surrey Pension Fund ("the Fund") Town and Parish Council
("Councils") pooling arrangement.

The policy is effective from 1 April 2019 and will be reviewed and revised as necessary at each formal valuation of the Fund.

Background

The Fund has set up a Town and Parish Council pool which all Town and Parish Councils will be entered in to. The pool is intended to benefit the Councils through the pooling of risks and stabilising of contribution rates. This policy sets out the approach that will be taken as well as the benefits of this pool to the Town and Parish Councils in the Fund.

Description

The purpose of the Town and Parish Council Pool is to stabilise the pension funding requirements of the Councils who most often only have one or two participating member. By joining the pool, the Councils benefit from:

- One common contribution rate payable by all employers in the pool. This should help maintain stability in the contributions between formal valuations;
- Their cessation debt, which is triggered when the last active member leaves, will be calculated on an ongoing basis;

Participating employers

All Town and Parish Councils in the Fund will be automatically included in the pool unless they formally opt out in writing.

Benefits/drawbacks of pooling

Employers should be aware that this is a full risks pooling arrangement and as such carries both
benefits and drawbacks for each participating Council.

Benefits

The main benefit of pooling is that it reduces the volatility of contribution rates arising because of experience. For example:

- Mortality risks; pooling gives the Town and Parish Councils some protection against the higher cost of paying benefits to one or two individuals who enjoy a much longer than expected retirement. Some employers may pay lower regular contributions by staying out of a pool (e.g. employers with young membership, better budgetary discipline and lower pay awards). If employers are small, however, they could still benefit from the protection the pool gives from uncertain and unpredictable events such as unusually long periods in retirement.

A further benefit will be that the cessation debt for employers participating in the pool is calculated on an ongoing basis rather than a more prudent cessation basis. This is possible due to the sharing of risks that the pool offers and the security that it offers the Fund.

Drawbacks and risks

It is worth remembering that some employers may be adversely affected by pooling and end up paying higher contributions than they would pay if they are out of the pool because they are subsidising other members of the pool. Specific examples of this include:

- Sharing the impact of pay awards. This can be a drawback for employers whose pay awards are lower than the average for the pool and who, in effect, subsidise employers whose pay awards are higher;
- Employers with younger members than other employers in the pool (since it is less expensive to fund for younger members).

Employers should be aware that the balance may, however, swing in their favour at future valuations if their own experience over that time is poor. For example, at the actuarial valuation, an employer may find that its own individual experience would suggest a specific contribution rate. The contributions are, however, set lower than this theoretical rate because the employer benefits from the pooled rate. The average experience of all the employers in the pool has kept this employer's rate down. The other employers in the pool are therefore subsidising the employers with poorer experience. Given that pooling is a way of averaging experience, there will always be winners and losers in a pooling arrangement.

Membership of a pool results in loss of control for individual employers. An employer with an individual contribution rate has more control over its pension contributions and can reduce them by, for example, exercising discipline in pay awards.