

For Decision

Agenda Item 14.3
Date of Meeting: 29/11/23

To: The Management Committee

From: The Director

Subject: Pensions Update

1. Introduction and Purpose

1.1 At the April meeting Committee was presented with a report on the outcome of the employer consultation on the future service benefits. The findings from the consultation are set out in Section 2 (Background) of this report for ease of reference.

1.2 Committee noted at the time that there were no changes being made to the Pension Scheme and that Gordon Birrell from Chiene+Tait had advised, therefore, that there would be no need to hold a review session with Committee. It was acknowledged that if notification was received later in the year that the future service contribution levels were to increase in April 2024, a session would then be organised with Gordon Birrell.

1.3 The purpose of this report is to provide an update on the Pensions Scheme for Committee's consideration. Following which Committee is asked to decide whether a session should be arranged with Gordon Birrell to review its position on the Pensions Scheme.

2. Background

2.1 The outcome of the employer consultation was presented to Committee at its April meeting and was as follows:

Summary of the consultation responses:

- 78% of the affected employers responded to the consultation

Of the 78% that responded:

- 44% indicated support to closure of the final salary option
- 47% indicated support to reduce pre-retirement CARE revaluation.

The EC discussed the responses at their meeting on 23 February 2023. As well as the levels of support shown for each option, consideration was given to the DB membership, which continues to decline, as well as employer comments,

such as the continued desire to allow employers the freedom to choose the appropriate pension offering for their staff from the range of benefit offerings: final salary, CARE and defined contribution.

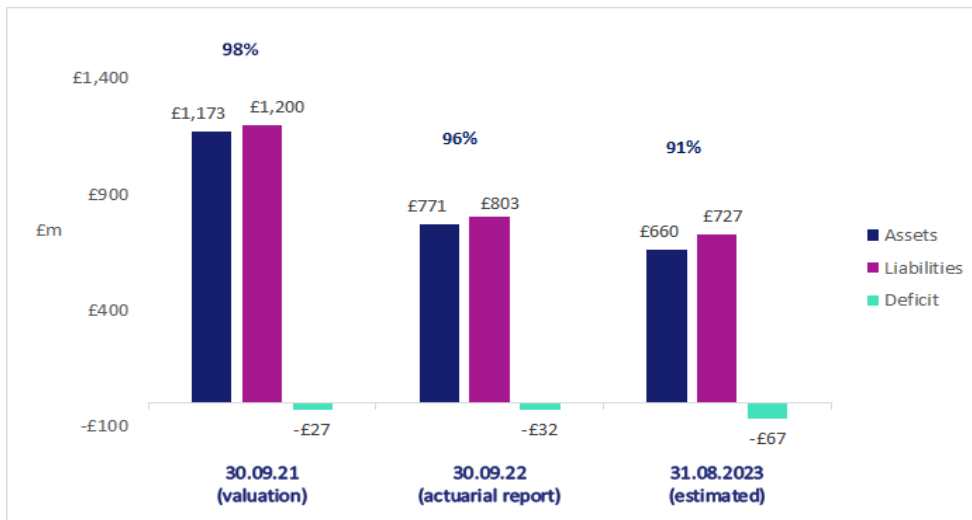
The EC also noted that, whilst they had managed to agree with the Scheme Committee that future service contribution rates would remain unchanged until April 2024, the cost of funding DB remains significant for employers and Scheme options should remain sustainable and affordable.

Following discussion, the EC agreed that no changes should be proposed to the final salary or CARE benefit offerings, nor should this position automatically be revisited at the 2024 valuation.

Benefits offered to employees will therefore remain determined by each employer. SHAPS will continue to allow employers flexibility to offer all, or some, options according to the cost and risk appetite of each employer. If an employer believes that the cost of providing any particular benefit becomes prohibitive, they can continue to use the existing range of options to make changes to the future service benefits being offered to existing members and/or new employees following the completion of appropriate consultation with their employees.

3. Pensions Update

- 3.1 I attended the SHAPs session for Directors and Finance Managers, hosted by EVH, on 16th November. Our Chair attended the afternoon session for Governing Body members. The 2 main speakers at the event were Gordon Birrell, Seven Street Wealth (formerly Chiene+Tait) and Susan Wardlaw, Senior Employer Relationship Manager, SHAPs.
- 3.2 Gordon, recapped on what was covered last time and what has been happening since including rapidly rising global inflation, the continued cost of living crisis, a continued gradual shift towards defined contributions and promotions, pay rises and salary sacrifice. He spoke about inflation and the negative impact on investments (impacts both DB assets and liabilities). He spoke about the impact on those who may be considering retirement in the foreseeable future and stressed that employees need to plan for their retirement.
- 3.3 Susan provided an updated funding position for the Defined Benefits Pension option which is shown below:



3.4 As can be seen from the above the funding position (estimated at August 2023) has reduced, with both assets and liabilities falling but the deficit has increased to £67m.

3.5 Susan recapped on the outcome of the earlier employer consultation, confirming that no changes to the benefits are being offered and no changes to the future service contribution rates. She advised that the next 3 yearly valuation will be carried out in 2024 at which time the future service contribution rates will be reviewed.

3.6 During the question and answer session, it was established that the 3 yearly valuation will be carried out in September 2024, with the findings being considered by the pension committees in Spring 2025 and the results being shared with employers in the Summer/Autumn 2025. Based on this timeline any likely changes to future service contribution rates would come into effect from April 2026.

3.7 Based on the reduced funding position, it is anticipated that as part of the valuation outcome, deficit contributions by employers will be re-introduced. Again this is likely to come into effect from April 2026. Susan was unable to provide an indication of the level of deficit contributions. In general, in the interests of prudence organisations should look at their previous deficit payments and use this as a basis for factoring into their financial projections.

4. Next Stage – Review Session

4.1 Following on from the information that the future service contribution rates will not change until April 2026 with deficit contributions likely to be reintroduced at the same time, I contacted Gordon Birrell to ascertain whether the Committee should have a review session with him. Gordon's response is as follows:

“This pretty much depends on your boards view in stemming future DB liability as it does add another year of liabilities given the delay in reviewing contributions rates has been deferred until next valuation.

Its good from a cost perspective although any future deficit contribution would be more due to keeping the DB open for longer (if change was decided).

2024 was perhaps timely although this now pushes out change to April 2026 when new rates are likely to come into play.”

- 4.2 Taking account of Gordon’s comments, Committee is asked to decide whether it would be helpful to have a review session with Gordon Birrell. If Committee meet with Gordon and depending on the outcome of the review, it may be necessary to consult with staff if any changes are being proposed. Any changes would come into effect after giving the Pension Scheme 3 months’ notice.
5. Summary/Decision Sought
 - 5.1 Committee last received a pensions update at its April meeting when the outcome of the employer consultation on the future service benefits was reported. A recap of the outcome is provided at Section 2 – Background of this report.
 - 5.2 A pensions update is provided at Section 3 which is based on the information shared at the SHAPs event recently held for Directors and Finance Managers.
 - 5.3 Committee is asked to consider this report and based on the comments received from Gordon Birrell, 7SW (see para 4.1) decide whether a review session should be held with Gordon Birrell.