Staffordshire Pension Fund

2021 Accounting Briefing Session

14 October 2021

~~Laura McInroy FFA~~ Douglas Green FFA

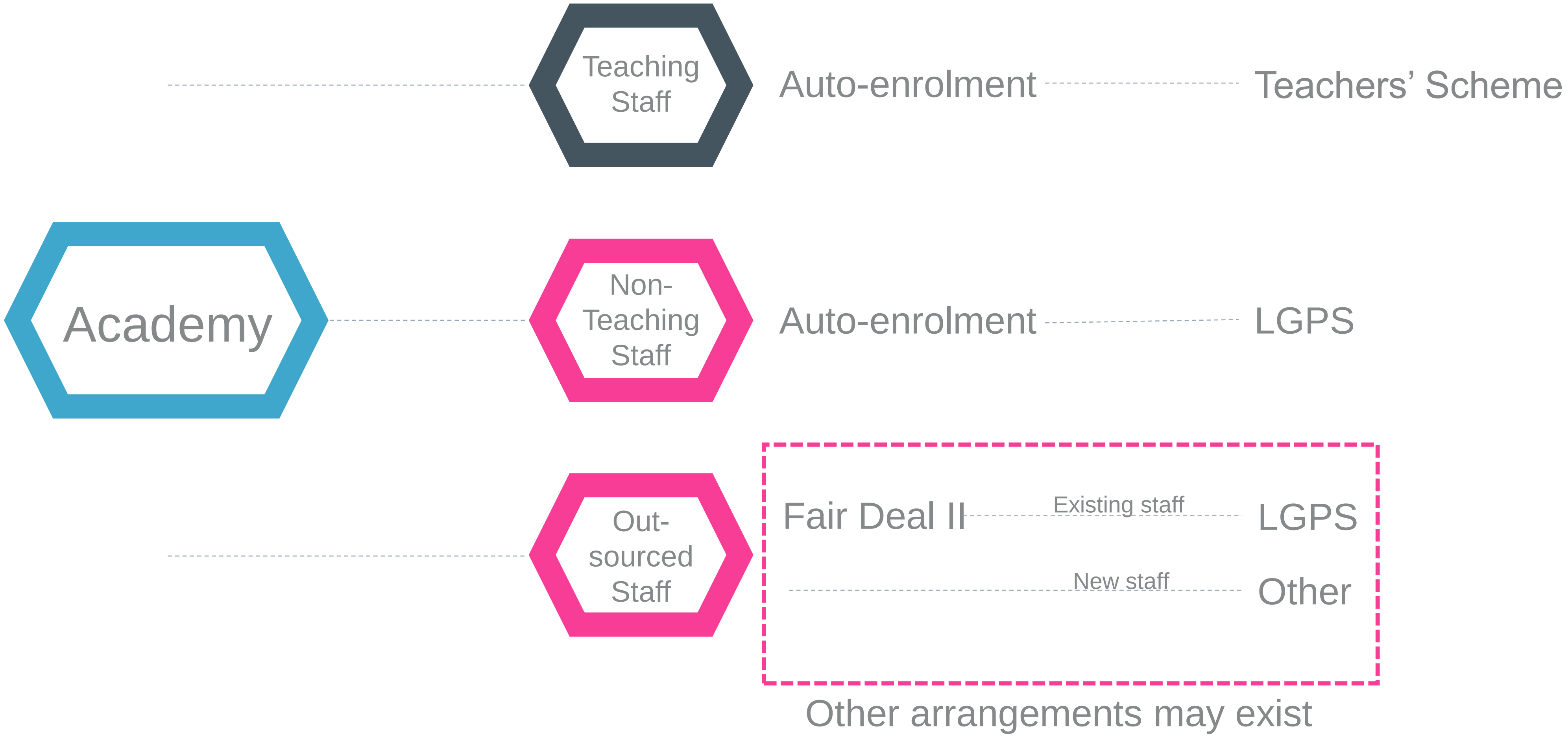
Adrian Loughlin

Agenda

1. Academies' pension arrangements
2. Funding vs Accounting
3. Assumptions and Data
4. Building up the balance sheet
5. Accounting FAQs
6. Hot topics

1. Academies' pension arrangements

Academies & pensions



Quick facts

Teachers	LGPS
• Statutory scheme	• Statutory scheme
• One fund for everyone	• Split into regional funds
• Employers are not ‘tracked’	• Employers are ‘tracked’
• Unfunded (no assets)	• Funded

LGPS Rule of Thumb: A school located in a region must be in that regional LGPS fund

2. Funding vs Accounting

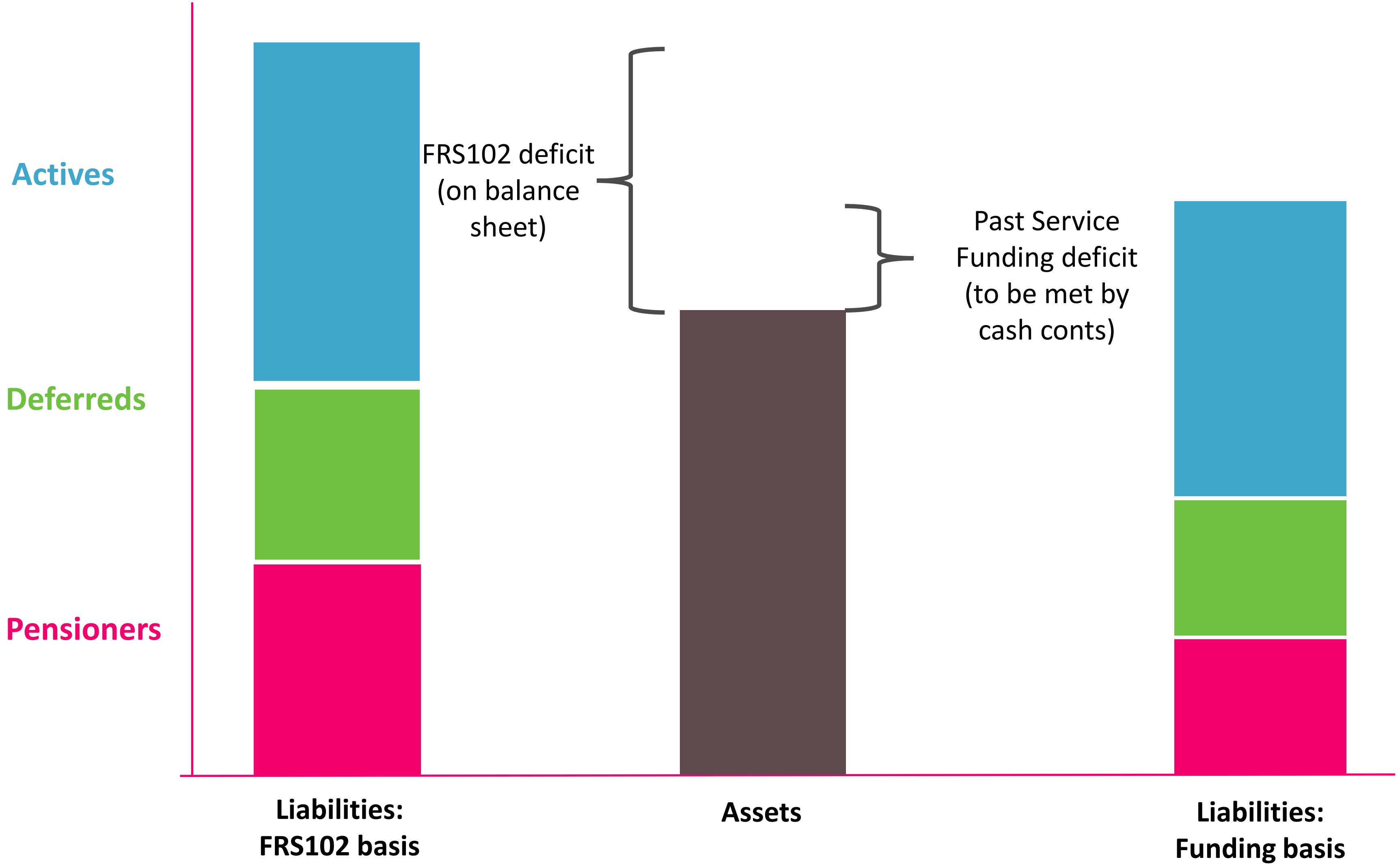
Why we do a funding valuation

- Calculate employer contribution rates
- Compliance with legislation
- Analyse actual experience vs assumptions
- Review Funding Strategy Statement
- Part of continual ‘health check’ on fund solvency

Valuations: Spot the difference

	Triennial Funding Valuation	Annual FRS102 Accounting
Purpose	To set cash contributions	For inclusion in academy accounts
Basis	Prudent	Best estimate, other than*
Assumptions	Set by the LGPS Fund	Responsibility of the “directors”
Discount rate	Fund’s prudent expectation of *future* investment returns	*Based on high quality corporate bond yields *on the accounting date*
Methodology	Based on full membership data	Estimated projection from last funding valuation (31 March 2019 or later for new academy conversions)

Valuations: Spot the difference

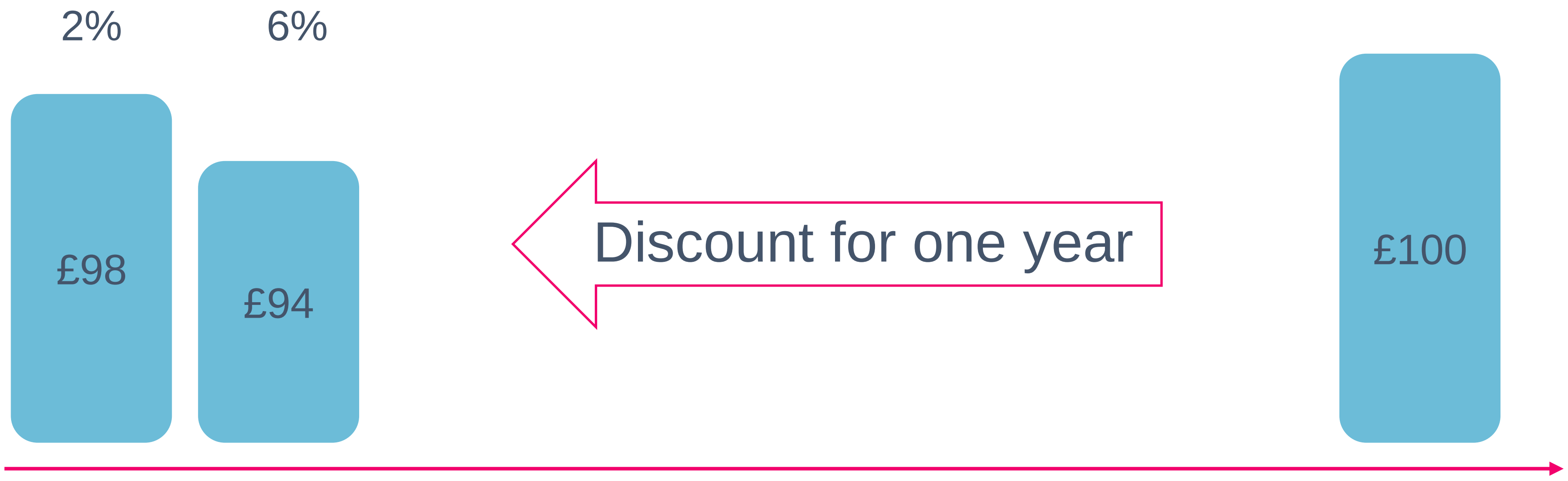


3. Assumptions and Data

What things affect the figures most?

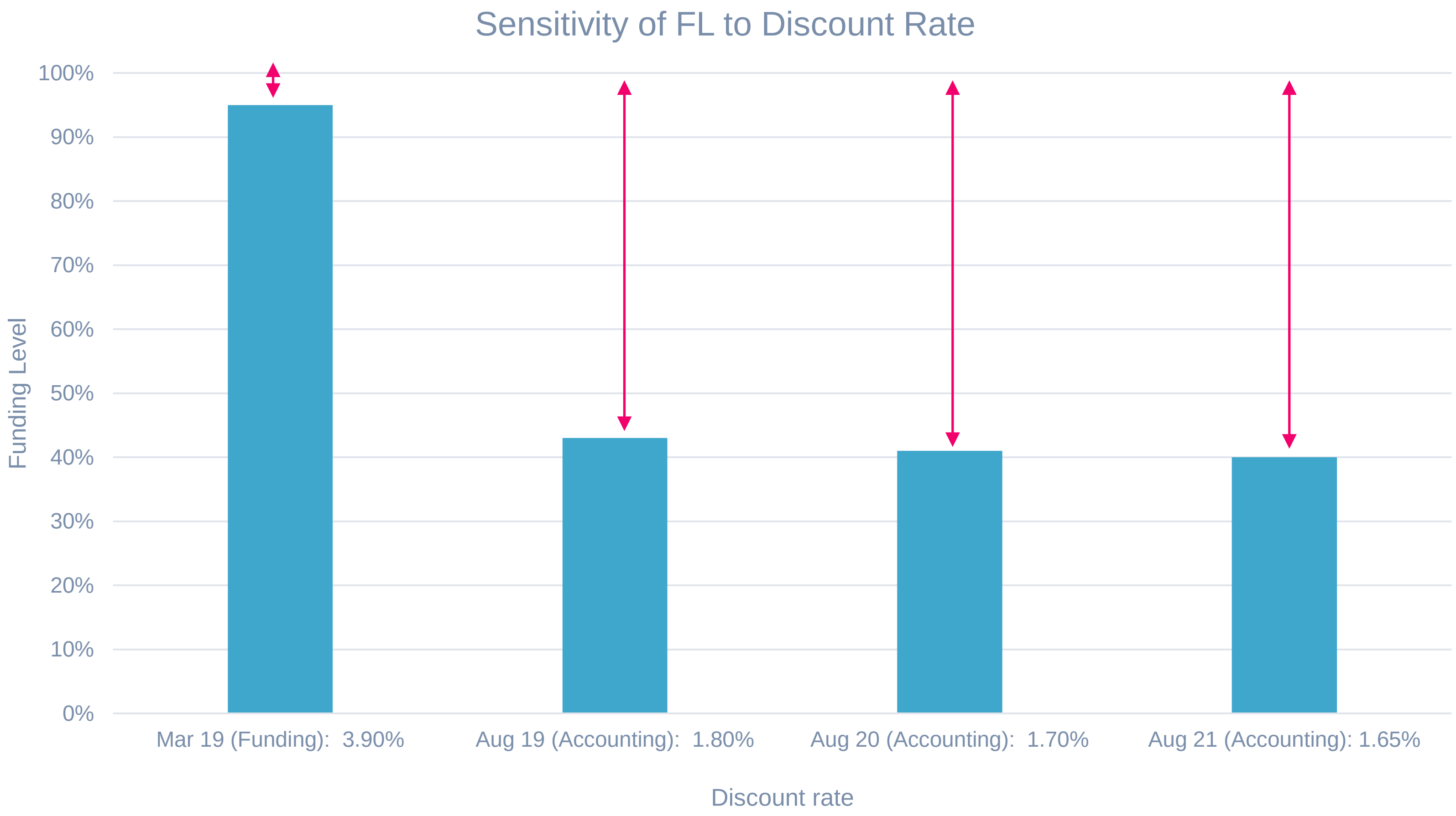
31 August 2021 assumption	2020/21 P&L	31 Aug 2021 Balance Sheet	2021/22 P&L
Discount rate		✓	✓
Salary growth rate		✓	
CPI pension increase		✓	✓
Longevity		✓	✓
Asset returns 2020/21		✓	
Early retirements 2020/21	✓	✓	

Why does the discount rate matter?



- Different assumptions give different answers
- A **higher** discount rate (i.e. assumed investment return) gives a **lower** present liability value,
  and therefore a **lower** deficit
- (and vice versa)

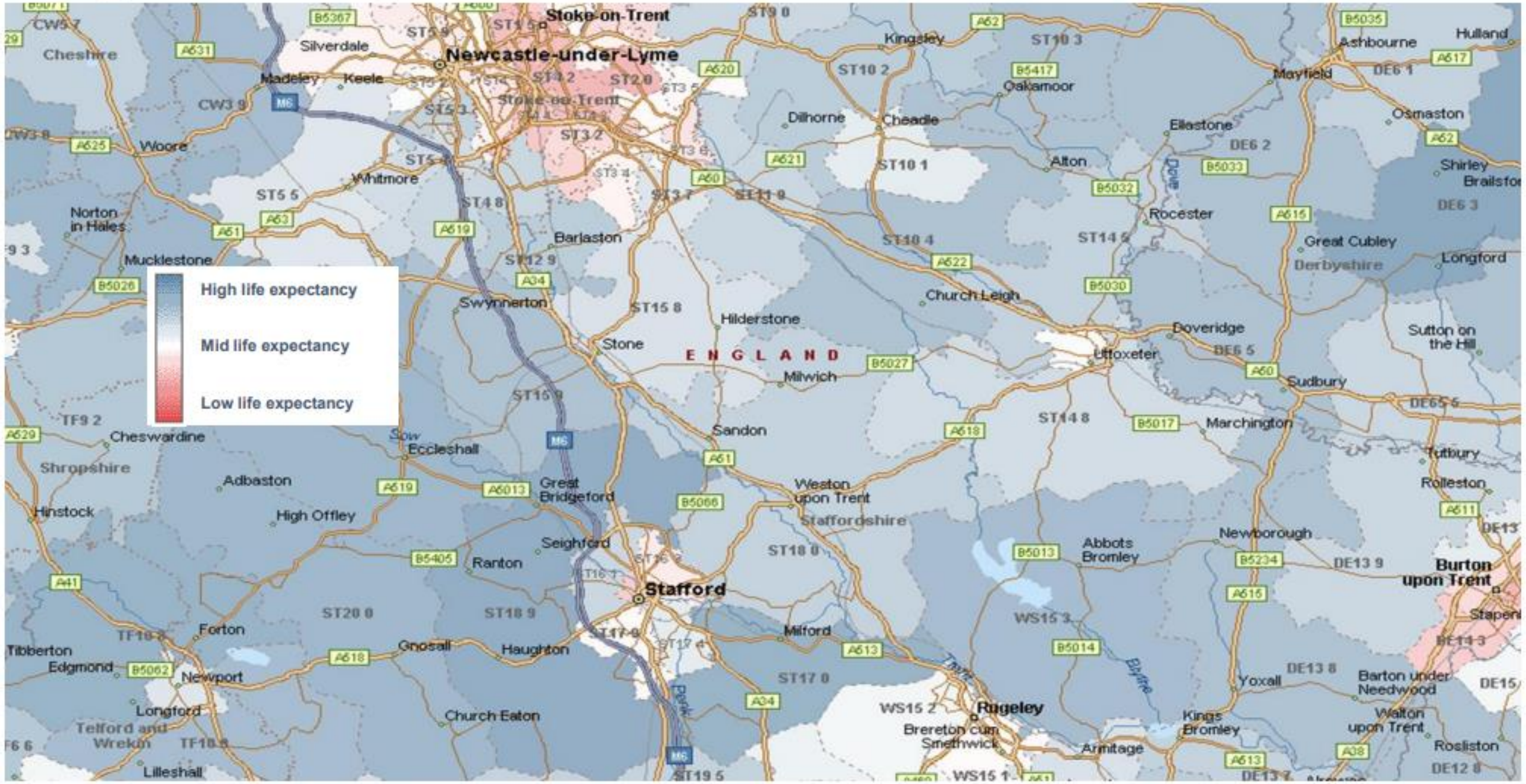
Impact of low corporate bond yields



Discount rate alone is biggest driver in size of liabilities

Source: Sample academy with a duration of 20 years.

Longevity: Baseline longevity



Baseline longevity based on Club Vita analysis from 2020 valuation
Future improvements updated to CMI 2020 model

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Standard Assumptions - Summary

Assumption	31 August 2020	31 August 2021	Impact on obligations
Discount rate	Corporate bond yield on year-end – ***1.70%***	Corporate bond yield on year-end – ***1.65%***	⬆
CPI increase assumption	RPI/CPI gap of 0.9% - ***2.20%***	RPI/CPI gap of 0.5% - ***2.90%***	⬆ ⬆
Salary increase assumption	CPI + 0.4% p.a. – ***2.60%***	CPI + 0.4% p.a. – ***3.30%***	⬆
Longevity – baseline	Club Vita	Club Vita	-
Longevity - improvements	CMI 2018, 1.25% p.a.	CMI 2020, 1.5% p.a.	⬆

Assumptions for a typical academy with a duration of >23 years

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Data used to prepare year-end accounts

Data we receive and use
Academy/MAT contributions
Academy/MAT employee contributions
LGPS Fund % investment returns and split of asset types (quarterly)
Early retirements member information

Data we don’t ask for or use
Academy/MAT level individual membership data
Actual benefit payments
Pensionable payroll

We perform high level reasonableness checks, but rely on the information provided by the Fund

4. Building up the balance sheet

FRS102 – assets

Period ended 31 August 2021	Assets £(000)	Obligations £(000)	Net asset / (liability) £(000)
Fair value of plan assets	682		682
Present value of funded obligations		1,441	(1,441)
Present value of unfunded obligations		-	-
Opening Position as at 31 August 2020	**682**	**1,441**	**(759)**
Service cost			
Current service cost*		126	(126)
Past service cost (including curtailments)		-	-
Effect of settlements	-	-	-
Total Service Cost	**-**	**126**	**(126)**
Net interest			
Interest income on plan assets	12		12
Interest cost on defined benefit obligation		26	(26)
Total net interest	**12**	**26**	**(14)**
Total defined benefit cost recognised in Profit or (Loss)	**12**	**152**	**(140)**
Cashflows			
Participants' contributions	18	18	-
Employer contributions	73		73
Estimated benefits paid	-	-	-
Estimated unfunded benefits paid	-	-	-
Estimated contributions in respect of unfunded benefits paid	-		-
Effect of business combinations and disposals	-	-	-
Expected closing position	**785**	**1,611**	**(826)**
Remeasurements			
Changes in financial assumptions		313	(313)
Changes in demographic assumptions		25	(25)
Other experience	-	(15)	15
Return on assets excluding amounts included in net interest	136		136
Total remeasurements recognised in Other Comprehensive Income (OCI)	**136**	**323**	**(187)**
Fair value of plan assets	921		921
Present value of funded obligations		1,934	(1,934)
Present value of unfunded obligations**		-	-
Closing position as at 31 August 2021	**921**	**1,934**	**(1,013)**

Assets at start

Actual investment return = "interest income" (assumed) + "remeasurement" (actual – assumed)

Contributions paid in & benefits paid out

Assets at end

FRS102 – obligations

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Obligations at start

New benefits earned (employer's share)

Interest cost

Cashflows that impact obligations

Changes in FRS102 assumptions

Pen Incr order change

Obligations at end

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High level checks

- Interest income on assets = discount rate at **start** of period * assets at start [1.7% * 682 = 12]
- Investment return compared with stated 20.5% :
  (Interest income + Remeasurement on assets) / assets at start. [(12 + 136) / 682 = 22%)]
- Interest cost on obligations = discount rate at **start** of period * obligations at start [1.7% * 1,441 = 24]
- Current service cost = payroll * **last** year's **projected** service cost [44.3% * 284 = 126]
- Check employer & employee contributions against your own data
- Change in assumptions will vary from one year to the next
  – depends on market (and other) conditions

Make sure the your auditors have all the documents
(Results Schedules, Covering Reports, Briefing Notes)

FRS102 – transfers into / out of MAT

Service cost			
Current service cost*		126	(126)
Past service cost (including curtailments)		2	(2)
Effect of settlements	(53)	(76)	23
Total Service Cost	**(53)**	**52**	**(1)**

Transfers out

Cashflows			
Participants' contributions	518	518	-
Employer contributions	2,213		2,213
Estimated benefits paid	(346)	(346)	-
Estimated unfunded benefits paid	-	-	-
Estimated contributions in respect of unfunded benefits paid	-		-
Effect of business combinations and disposals	1,951	3,567	(1,616)
Expected closing position	**25,561**	**54,360**	**(28,799)**

Transfers in

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FRS102 – P&L charge

Service cost			
Current service cost*		3,986	(3,986)
Past service cost (including curtailments)		11	(11)
Effect of settlements	-	-	-
Total Service Cost	**-**	**3,997**	**(3,997)**
Net interest			
Interest income on plan assets	399		399
Interest cost on defined benefit obligation		859	(859)
Total net interest	**399**	**859**	**(460)**
Total defined benefit cost recognised in Profit or (Loss)	**399**	**4,856**	**(4,457)**

New benefits earned (employer's share)

Any redundancies / early retirements

Interest on provision

Nothing to do with cashflows …

… or changes in markets or assumptions during the year …

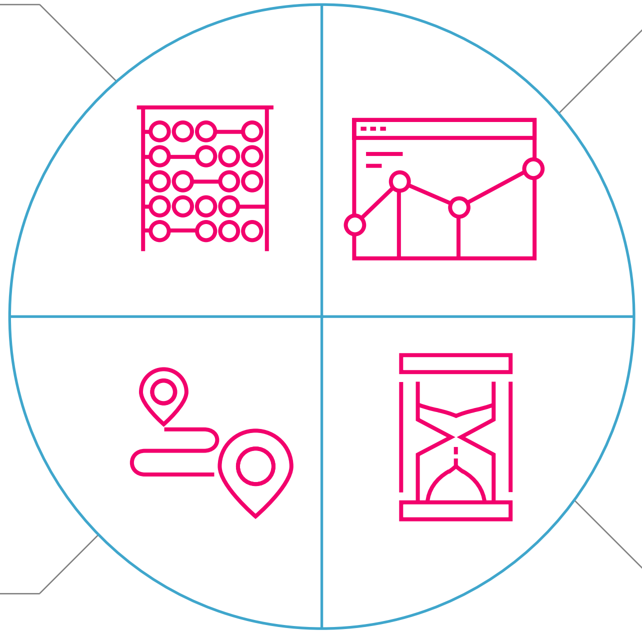
… or balance sheet at end

5. Accounting FAQs

What do we get asked a lot?

Why do I get multiple reports instead of just one MAT report?

Why don’t you use actual benefits paid in the cashflows?



Why can’t I see a breakdown of my ‘other’ experience?

Why does my service cost change so much year on year?

6. Hot topics

1 - Longevity impact – long term

Lower longevity improvements

- Global recession
- Long-term COVID effects
- Existing health worsening
- New virus strains emerging

Higher longevity improvements

- Survivorship bias
- Changed social behaviour
- Reduced air pollution
- Reduction in smoking

Impact will be analysed at next formal valuation in 2022

2 - Recent court cases affecting benefits

McCloud

- Most employers allowed for in 2020 accounts
- Impact included within all employer’s balance sheets in 2021

GMP indexation

- Some employers allowed for in 2019 accounts
- Impact calculated as part of formal 2019 valuation
- Impact included within all employer’s balance sheets in 2020 and therefore 2021

Goodwin

- Very few employers allowed for in 2020 accounts
- Impact small (<0.5% liability)
- Will only include if instructed

3 - Funding valuation next year

- Formal valuation as at 31 March 2022
- New contribution rates from 1 April 2023
- Be aware of your obligations to the Fund
  - Timeliness of data submission
  - Accuracy of data

Watch out for communication from the Fund

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Where will the valuation appear in FRS102?

(In 2020 & every 3 years:)
Valuation asset experience

FRS102 financial assumptions changed

FRS102 demographic assumptions changed

Remeasurements			
Changes in financial assumptions		7,167	(7,167)
Changes in demographic assumptions		457	(457)
Other experience	-	(277)	277
Return on assets excluding amounts included in net interest	2,406		2,406
Total remeasurements recognised in Other Comprehensive Income (OCI)	**2,406**	**7,347**	**(4,941)**

Difference in actual investment return vs FRS102 discount rate assumed LY

(Every year:)

Difference in actual Pension Increase (PI) order vs rate assumed LY

(In 2020 & every 3 years:)

Mostly valuation membership experience

Anything <10% of overall obligations usually within auditor materiality limits

4 - Multi Academy Trust consolidations

- National MAT has applied for their Secretary of State approval
- Some Funds are expressing their objections
- Yet to test DLUHC's response when there are objections
- Beware of "contribution shopping"
  - Many factors influence contribution rate (e.g. funding level, membership)
  - Staffordshire Pensions Committee has a co-opted member position for an Education Sector representative (currently vacant if anyone is interested)

Can still be done but more barriers than before

5 - Outsourcings

- Academies are commonly outsourcing services
- Contractors are becoming more aware of risks
- Increasing use of “pass-through”
    - Fund’s default approach is for small, short term contractors to participate with pass-through
- Academy must request DfE permission to enter into a pass-through arrangement

Essential to liaise with the Fund in respect of any outsourcings

Thank you