

Board of Management Report Finance & Physical Resources Committee

Date of Meeting	Wednesday 21 September 2016
Paper No.	FPRC1-Q
Agenda Item	21
Subject of Paper	Strathclyde Pension Fund Valuation at 31 July 2016
FOISA Status	Disclosable
Primary Contact	Stuart Thompson – Executive Director of Finance
Date of Production	Wednesday 14 September 2016
Action	For Noting

Recommendations

The Committee is asked to note the Strathclyde Pension Fund valuation.

1. Purpose of report

The purpose of this report is to provide the Committee with an update on the Strathclyde Pension Fund valuation.

2. Context

The College receives an actuarial valuation from Hymans Roberston every year for the Strathclyde Pension Fund (See Hymans Robertson Report 'FRS102 AS at 31 July 2016'). The purpose of this valuation is to incorporate annual changes in the Income & Expenditure Account and the Balance Sheet.

For 2015/16 the charge to the Income & Expenditure Account is £1,030,000 the accumulated deficit has increased by £2,894,000 to £12,474,000.

The incorporation of FRS102 has meant that the movement in interest is treated differently. This results in increased interest costs and a reduction in actuarial losses. The net effect of this is an increased charge to the Income & Expenditure Account.

The main reason for the increase in the deficit is an increase in the Funds liabilities caused by a decrease in bond yields. For the College element of the scheme the funding ratio is now 82%.

3. Impact and implications

The increased charge to the Income & Expenditure Account will result in a deficit for the Income & Expenditure in the accounts in future years (there will be surplus in 2015/16 and 2016/17 due to foundation grant monies received). The government does not count this pension cost as a resource cost but is an AME cost. Therefore for balancing the College budget this cost is not included. There will be a presentational issue of explaining that the College is breaking even despite reporting a loss in the accounts.

FRS102 as at 31 July 2016 - Results Schedule

ATTENTION

The results in this Schedule should be read in conjunction with the accompanying report entitled 'Actuarial Valuation as at 31 July 2016 for Accounting Purposes'. The method, assumptions, reliances and limitations are described in that document. The restrictions set out in the report on the disclosure to any third party apply equally to this Results Schedule.

Fund	Strathclyde Pension Fund
Administering Authority	Glasgow City Council
Pool	City of Glasgow College
Terms of Engagement Signed	31 March 2016

Please Note

I have been asked not to value the unfunded benefits as part of this report. I understand the Employer accounts for these outside of FRS102.



Steven Law FFA
For and on behalf of Hymans Robertson LLP
22 August 2016

Section 1 - Data

Employer membership statistics

	Number 31 Mar 2014	Total Salaries / Pensions £(000) 31 Mar 2014	Average Age 31 Mar 2014
Actives	343	6,894	50
Deferred Pensioners	208	308	51
Pensioners	150	817	64

Deferred pensioners include undecided leavers and frozen refunds. Salaries are actual, not full-time equivalent.

Payroll

Period	Assumed Total Pensionable Payroll based on Information Provided
1 August 2015 to 31 July 2016	£7,318,000

LGPS early retirements

New Early Retirements 1 August 2015 to 31 May 2016	Number	Total Pension Accrued (£)	Total Pension Actual (£)
Redundancy	-	-	-
Efficiency	-	-	-
Other	-	-	-

Teachers' early retirements

New Early Retirements 1 August 2015 to 31 May 2016	Number	Recharged Accrued Pension (£)	Total Actual Recharged Pension (£)
Redundancy	-	-	-
Efficiency	-	-	-
Other	-	-	-

Investment returns

The return on the Fund in market value terms for the period to 31 July 2016 is estimated based on actual Fund returns as provided by the Administering Authority and index returns where necessary. Details are given below:

Actual Returns from 1 July 2015 to 31 March 2016	4.2%
Total Returns from 1 August 2015 to 31 July 2016	14.6%

The major categories of plan assets as a percentage of total plan assets

I have been provided with the split of investments by category as at 31 March 2016. Using this information and allowing for index returns on each asset category between 31 March 2016 and 31 July 2016, the estimated split of assets as at 31 July 2016 is as shown below:

Period Ended	31 Jul 2016	31 Jul 2015
Equities	73%	75%
Bonds	16%	12%
Property	11%	12%
Cash	0%	1%

I estimate the bid value of the Fund's assets as at 31 July 2016 to be £17,842,000,000 based on information provided by the Administering Authority, index returns where necessary and estimated adjustments for the difference between the mid-market (as supplied) and bid (as required) value of assets.

Unfunded benefits

A summary of the membership data in respect of unfunded benefits is shown below.

LGPS Unfunded Pensions	Number at 31 May 2016	Annual Unfunded Pension £(000)
Male	-	-
Female	-	-
Dependants	-	-
Total	-	-

Teacher Unfunded Pensions	Number at 31 May 2016	Annual Unfunded Pension £(000)
Male	-	-
Female	-	-
Dependants	-	-
Total	-	-

The annual unfunded pensions include the 2016 pension increase.

Bulk transfers

I have not been asked to value any bulk transfers of membership this period.

Section 2 - Assumptions

Financial assumptions

My recommended financial assumptions, as described in the accompanying report, are summarised below:

Period Ended	31 Jul 2016	31 Jul 2015
	% p.a.	% p.a.
Pension Increase Rate	1.9%	2.6%
Salary Increase Rate	3.9%	4.5%
Discount Rate	2.4%	3.6%

Mortality

As discussed in the accompanying report, life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2012 model assuming current rates of improvements have peaked and will converge to a long term rate of 1.5% p.a. for males and 1.25% p.a. for females. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.1 years	23.6 years
Future Pensioners*	24.8 years	26.2 years

* Figures assume members aged 45 as at the last formal valuation date.

Historic mortality

Life expectancies for the prior period end are based on the Fund's VitaCurves with allowance for future improvements as shown below:

Period Ended	Prospective Pensioners	Pensioners
31 July 2015	CMI 2012 model assuming current rates of improvements have peaked and will converge to a long term rate of 1.5% p.a. for males and 1.25% p.a. for females.	CMI 2012 model assuming current rates of improvements have peaked and will converge to a long term rate of 1.5% p.a. for males and 1.25% p.a. for females.

Please note that the mortality assumptions are identical to those used in the previous accounting period.

Commutation

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

Section 3 - Balance sheet, P&L, OCI disclosures as at 31 July 2016

Changes in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liability for year end 31 July 2016

Period ended 31 July 2016	Assets £(000)	Obligations £(000)	Net (liability) / asset £(000)
Fair value of plan assets	49,254		49,254
Present value of funded liabilities		58,834	(58,834)
Present value of unfunded liabilities		-	-
Opening Position as at 31 July 2015	49,254	58,834	(9,580)
Service cost			
Current service cost*		2,086	(2,086)
Past service cost (including curtailments)		-	-
Effect of settlements	-	-	-
Total Service Cost	-	2,086	(2,086)
Net interest			
Interest income on plan assets	1,784		1,784
Interest cost on defined benefit obligation		2,140	(2,140)
Impact of asset ceiling on net interest	-	-	-
Total net interest	1,784	2,140	(356)
Total defined benefit cost recognised in Profit or (Loss)	1,784	4,226	(2,442)
Cashflows			
Plan participants' contributions	450	450	-
Employer contributions	1,412		1,412
Contributions in respect of unfunded benefits	-		-
Benefits paid	(1,278)	(1,278)	-
Unfunded benefits paid	-	-	-
Effect of business combinations and disposals	-	-	-
Expected closing position	51,622	62,232	(10,610)
Remeasurements			
Changes in demographic assumptions		-	-
Changes in financial assumptions		7,903	(7,903)
Other experience		(591)	591
Return on assets excluding amounts included in net interest	5,448		5,448
Changes in asset ceiling	-	-	-
Total remeasurements recognised in Other Comprehensive Income (OCI)	5,448	7,312	(1,864)
Fair value of plan assets	57,070		57,070
Present value of funded liabilities		69,544	(69,544)
Present value of unfunded liabilities**		-	-
Closing position as at 31 July 2016	57,070	69,544	(12,474)

* The current service cost includes an allowance for administration expenses of 0.2% of payroll.

** For unfunded liabilities as at 31 July 2016, it is assumed that all unfunded pensions are payable for the remainder of the member's life. It is further assumed that 90% of pensioners are married (or cohabiting) at death and that their spouse (cohabitee) will receive a pension between 37.5% and 50% of the member's pension as at the date of the member's death.

Information about the Defined benefit obligation

	Liability split £(000) as at 31 July 2016	Liability split (%) as at 31 July 2016	Weighted Average Duration at Previous Formal Valuation
Active members	45,009	64.7%	24.4
Deferred members	8,177	11.8%	22.1
Pensioner members	16,358	23.5%	12.7
Total	69,544	100.0%	20.0

Please note that the above figures are for the funded obligations only and do not include any unfunded pensioner liabilities. The durations are as they stood at the previous formal valuation as at 31 March 2014.

Changes in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liability for year end 31 July 2015

Period ended 31 July 2015	Assets £(000)	Obligations £(000)	Net (liability) / asset £(000)
Fair value of plan assets	42,806		42,806
Present value of liabilities		48,918	(48,918)
Opening Position as at 31 March 2014	42,806	48,918	(6,112)
Service cost			
Current service cost*		2,522	(2,522)
Past service cost (including curtailments)		-	-
Effect of settlements	-	-	-
Total Service Cost	-	2,522	(2,522)
Net interest			
Interest income on plan assets	2,489		2,489
Interest cost on defined benefit obligation		2,863	(2,863)
Impact of asset ceiling on net interest	-	-	-
Total net interest	2,489	2,863	(374)
Total defined benefit cost recognised in Profit or (Loss)	2,489	5,385	(2,896)
Cashflows			
Plan participant's contributions	577	577	-
Employer contributions	1,803		1,803
Contributions in respect of unfunded benefits	-		-
Benefits paid	(1,764)	(1,764)	-
Unfunded benefits paid	-	-	-
Effect of business combinations and disposals	-	-	-
Expected closing position	45,911	53,116	(7,205)
Remeasurements			
Changes in demographic assumptions		1,726	(1,726)
Changes in financial assumptions		4,160	(4,160)
Other experience		(168)	168
Return on assets excluding amounts included in net interest	3,343		3,343
Changes in asset ceiling	-	-	-
Total remeasurements recognised in Other Comprehensive Income (OCI)	3,343	5,718	(2,375)
Fair value of plan assets	49,254		49,254
Present value of funded liabilities		58,834	(58,834)
Present value of unfunded liabilities		-	-
Closing position as at 31 July 2015	49,254	58,834	(9,580)

* The current service cost includes an allowance for administration expenses of 0.2% of payroll.

Please note that I have only shown a one year history of results and if further information is required please see the previous years' reports.

Section 4 - Projected defined benefit cost for the period to 31 July 2017

Analysis of projected amount to be charged to operating profit for the period to 31 July 2017

Period Ended 31 July 2017	Assets £(000)	Obligations £(000)	Net (liability)/asset £(000) % of pay	
Projected Current service cost *		2,438	(2,438)	(33.3%)
Past service cost including curtailments		-	-	-
Effect of settlements	-	-	-	-
Total Service Cost	-	2,438	(2,438)	(33.3%)
Interest income on plan assets	1,376		1,376	18.8%
Interest cost on defined benefit obligation		1,688	(1,688)	(23.1%)
Total Net Interest Cost	1,376	1,688	(312)	(4.3%)
Total Included in Profit and Loss	1,376	4,126	(2,750)	(37.6%)

* The current service cost includes an allowance for administration expenses of 0.2% of payroll. The monetary value is based on a projected payroll of £7,318,000

The contributions paid by the Employer are set by the Fund Actuary at each triennial actuarial valuation (the most recent being as at 31 March 2014), or at any other time as instructed to do so by the Administering Authority. The contributions payable over the period to 31 March 2018 are set out in the Rate and Adjustments certificate. For further details on the approach adopted to set contribution rates for the Employer, please refer to the 2014 actuarial valuation report.

I estimate the Employer's contributions for the period to 31 July 2017 will be approximately £1,412,000.

Notes:

The above figures should be treated as estimates and may need to be adjusted to take account of:

- any material events, such as curtailments, settlements or the discontinuance of the Employer's participation in the Fund;
- any changes to accounting practices;
- any changes to the Scheme benefit or member contribution rates; and/or
- any full funding valuation that may have been carried out on the Employer's behalf.

The monetary amount of the projected service cost for the period to 31 July 2017 may be adjusted to take account of actual pensionable payroll for the period.

Section 5 - Sensitivity Analysis

Sensitivity analysis

FRS102 does not require disclosure of the sensitivity of the results to the methods and assumptions used. However, it is recommended best practice that this information is included and we have therefore shown these in the report.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Change in assumptions at 31 July 2016:	Approximate % increase to Employer Liability	Approximate monetary amount (£000)
0.5% decrease in Real Discount Rate	12%	8,339
1 year increase in member life expectancy	3%	2,086
0.5% increase in the Salary Increase Rate	5%	3,198
0.5% increase in the Pension Increase Rate	7%	4,885

Notes:

In order to quantify the impact of a change in the financial assumptions used, we have calculated and compared the value of the scheme liabilities as at 31 July 2016 on varying bases. The approach taken is consistent with that adopted to derive the FRS102 figures provided in this report.

To quantify the uncertainty around life expectancy, we have calculated the difference in cost to the Employer of a one year increase in life expectancy. For sensitivity purposes, this is assumed to be an increase in the cost of benefits of broadly 3%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominately apply at younger or older ages).

Please note the above figures have been derived based on the membership profile of the Employer as at the date of the most recent actuarial valuation.

For further details on the method and assumptions used please refer to the accompanying report 'Actuarial Valuation as at 31 July 2016 for Accounting Purposes'.

The approach taken in preparing the sensitivity analysis shown is consistent with that adopted in the previous year.