

Committee: Finance & Administration

Date: 26 March 2009

Title: Pension Fund issues

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Agenda Item

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Item for
information

Summary

- 1 At Full Council on 19 February, Members requested a report detailing pensions costs.
- 2 Details are provided in the report.
- 3 The Council has no discretion over the level of pensions costs as these are determined by the Essex County Council Pension Fund actuary.

Recommendations

The Committee is recommended to note this report.

Background Papers

Medium Term Financial Strategy

Pension Fund Funding Strategy Statement

Impact

Communication/Consultation	None
Community Safety	None
Equalities	None
Finance	Detailed in the report
Human Rights	None
Legal implications	None
Sustainability	None
Ward-specific impacts	None
Workforce/Workplace	None

Pensions Costs

- 4 The following is a summary of pensions fund costs in the General Fund. Definitions of the terms used follow the table.

£m	2008/09 revised budget	2009/10 budget	2010/11 forecast	2011/12 forecast	2012/13 forecast	2013/14 forecast
Employers' superannuation contribution towards future liabilities	0.605	0.697	0.769	0.849	0.936	1.033
Historic Deficit contribution	0.342	0.421	0.420	0.947	0.965	0.984
Added Years	0.108	0.108	0.108	0.108	0.108	0.108
Financial Strain	0.146	0.146	0.146	0.146	0.102	-
Sub total – amounts paid over to pension fund	1.201	1.372	1.443	2.050	2.111	2.125
Effect of FRS12 adjustment	0.540	-0.146	-0.146	-0.146	-0.102	-
Sub total – total expenditure applied to the accounts	1.741	1.226	1.297	1.904	2.009	2.125
Effect of capitalisation approval	-1.136	-	-	-	-	-
Net Revenue Impact	0.605	1.226	1.297	1.904	2.009	2.125

Employers superannuation contribution towards future liabilities

- 5 This represents a cost to Council as an employer and represents the employer's contribution to the pension fund on an employee's behalf. The level of contribution is set by the Essex County Council Pension Fund Actuary. It is to provide capacity to the Pension Fund to meet future liabilities that arise from employees being members of the Pension Fund.

- 6 The level of employer's contribution is set by the actuary as a percentage of basic salary. The following are the rates set and assumed:

	2009/10 Actual	2010/11 Actual	2011/12 Forecast	2012/13 Forecast	2013/14 Forecast
Employer's superannuation contribution as % of salary	10.8	11.7	12.5	13.3	14.3

- 7 Other factors affecting this cost are staff pay awards and changes in staffing levels.

Historic Deficit contribution

- 8 This represents the contribution required to fund the historic deficit on UDC's share of the Essex County Council Pension Fund.
- 9 The amount of contribution is determined by the actuary based on a prudent deficit recovery period, typically 15 years.
- 10 The pension fund is formally re-valued every three years. The size of the deficit changes according to the value of the fund's assets and is susceptible to financial market fluctuations.
- 11 The UDC pension fund deficit as at 31 March 2007 was £6m. The deficit as at 31 March 2008 was estimated to be £15.8m.
- 12 The next valuation is due on 31 March 2010, with changes to contributions taking effect from 2011/12. Current predictions suggest that the deficit will increase due to the fall in stock market values. An additional annual cost equivalent to around 7% of pay costs is being forecasted.

Added Years and Financial Strain

- 13 This represents costs of additional years added to the length of an employee's scheme membership as part of agreeing an early retirement deal. The costs are calculated annually by the Pension Fund authority and billed to the Council. Costs for an individual scheme member continue until the death of that member and therefore the total cost remains fairly static.

Financial Strain

- 14 This represents the cost to the pension fund of people retiring before their normal retirement age. The employer is obliged to make good the shortfall in contributions by making lump sum payments over a few years. The amount is determined by the Pension Fund authority at the time an early retirement occurs.

Sub total – amounts paid over to pension fund

- 15 This is the total amount paid over to the pension fund in cash terms, not the amount that actually has to be accounted for in that year (see below).

Effect of FRS12 adjustment

- 16 Accounting rules require known future obligations to be accounted for in the year that the obligation is created, irrespective of when they are physically paid. The accounting rule is known as FRS12. Financial strain payments come into this category. Strictly speaking the Council should have invoked FRS12 and charged these sums to the 2007/08 accounts. This will be corrected in 2008/09. The effect is for a large one off hit to the accounts in the first year, but nothing need be put through the accounts in subsequent years.

Sub total – total expenditure applied to the accounts

- 17 This represents the total expenditure that will appear in the accounts of the authority.

Effect of capitalisation approval

- 18 As previously reported to Members, the Council has received approval from DCLG to capitalise pensions costs in 2008/09. This means that the sum shown will be charged to capital expenditure instead of the revenue budget.

Net Revenue Impact

- 19 This shows the net cost to the General Fund revenue budget after making all the required adjustments.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Pension fund contributions will differ from the amounts estimated	2	2	Regular liaison with the Pension Fund authority and its actuary. Annual revision of Medium Term Financial Strategy.

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.