Worcestershire Pension Fund 2019 Funding Strategy Statement Consultation Response

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Q1: What prepayment options should be available e.g. 100% (deficit repayment) / 90% (future service contributions) annually in advance; all 3 years 100% / 90% in advance; first two years 100% / 90% in advance; etc?	
Employer A	We would like to see the following options: • Annual in advance * • 2 years in advance * • An option to pay the 3rd year at the start of the second year • 3 years in advance *with an option to consider this in each of the years rather than only at the outset
Employer B	Considering the on-going uncertainty over Government policy on student tuition fees the University does not currently envisage having sufficient excess cashflow to consider the prepayment option. Consequently, it is irrelevant what options are made available
Employer C	We think it is a good idea to offer alternatives as in previous years e.g. monthly, prepaid annually, all 3 yrs. prepaid. We have in the past paid annually in advance but unfortunately with budgets the way they are currently and with uncertainty over funding and future costs we cannot afford to prepay now. I don't know how easy it would be to add in a last 2 yrs. in advance option in case our situation improves? Or in this case would we still have the possibility of paying yrs. 2 and/or 3 in advance or do we have to decide in advance what path we are taking?
Employer D	Affordability issues means prepayments are not currently an option for our Trust
Employer E	100% annually in advance
Employer F	100% Deficit repayment
Employer G	As the school would like to know more about extending the deficit recovery period (question 3), it is unlikely that additional payments/ prepayments will be considered in addition to annual deficit recovery amount(s) and future service % contributions. However, having the option to make prepayments, i.e. at year end, would be useful to know more about. This amount, if linked to end of year, would fluctuate on an annual basis
Employer H	100% deficit repayment
Employer I	Our preference is to pay for all 3 years in advance as previously.

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Employer J	We do not expect that we will use any prepayment options, so we have no preference on the options that should be available
Employer K	Our preference is to continue as we do now, pay the Future Service Amount monthly and 100% of the annual Deficit Recovery Amount each year, with the discount applied to this annual payment.
Employer L	All options should be available, but the clear preference would be all 3 years 90% in advance.
Q2: When you think the investment pots should be made available; which investment pot you think might be appropriate for you; whether we should introduce other investment pots and what any other pots should look like? (Even if you do not believe this flexibility will be appropriate for you at the 2019 valuation, we would appreciate your comments in relation to this framework being available for use at a future valuation)	
Employer A	There should be an option to invest funds across pot with different risk ratings. As an academy we are most likely to choose the high-risk investment pots.
Employer B	No view on the timing of when different investment pots become available. Currently the University regards itself as having a strong covenant position so is prepared to accept the current 'higher risk pot'. However, if Government policy regarding the funding of the Higher Education Sector continues to reduce the ability of the University to grow and generate cash then the covenant position might alter, and a reduced level risk pot would become more appropriate.
Employer C	I think having different investment pots is worth exploring but now our budgets are more driven by the need to reduce costs rather than manage risks.
Employer D	As an Academy Trust we would consider a riskier longer-term investment pot which would generate more opportunity for return for us and similar schemes where funding levels of significantly below the scheme average.
Employer E	High, medium and low risk with ability to switch on an annual basis
Employer F	Higher risk pot as at present
Employer G	If other investment posts should be made available, the Governing Body of the school would need sufficient information and guidance to understand the risks associated. If other investment pots provide the opportunity to reduce the level of funding associated with the deficit recovery period, they should be made available for discussion.
Employer H	Happy with existing approach/medium risk, we don't envisage exiting the scheme soon
Employer I	The investment pots should be made available from the earliest opportunity i.e. 2020/21 year. The Higher Risk pot appears to be the most appropriate, given our financial position. The choice of 4 pots seems about right.
Employer M	We had a meeting yesterday within our trust, and we would like our contributions over the next three years to be at the lower risk and include the 0.5% for the McCloud case

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Employer J	We do not expect that we will make use of this flexibility soon. We welcome the introduction of alternative investment options for participating employers but do not have any strong views on what options should be offered.
Employer K	Given the increased costs to academies and our current funding issues, are there alternative "pots" that would potentially reduce our expenditure?
Employer L	It would be beneficial for the investment pots to come onstream over the course of the next financial year. The County Council would consider the existing higher risk investment strategy pot considering our view of covenant strength. Looking forward, the option to consider new investment pot, with perhaps a greater appetite for risk / return could be considered
Q3: Whether we should offer employers with proven short term LGPS affordability problems the option to phase in the increases to their future service % contributions or a longer deficit recovery period? NB if an employer goes bust, other employers must pick up the bill for making good on that employer's pension promises	
Employer A	Future service contributions should be set at the rate determined by the triennial valuation, not doing this could expose employers to risks they are not fully aware of because most employers take account of current pension costs when they decide staff pay but do not consider future increases. We support extending the deficit recovery period for employers who are unable to afford the back-funding payments however approval should not be automatic and must be subject to a review.
Employer B	The affordability of the whole scheme, given ever-increasing demands to increase cash payments is a major concern to the University. High level internal discussions have taken place about the viability of the University continuing to offer such a costly pension scheme. Whilst currently no specific actions have been taken this is kept under constant review, especially if there are increased demands on cashflow relating to deficit recovery. Accordingly, the University does not support any suggestion to reduce the deficit recovery period to 15 years, as per the draft document. Instead the University would want to stick with the current 18-year time period, or indeed extend this to 20 years. Similarly, there is absolutely no expectation that the University, with its own current LGPS deficit position to fund, would be able to fund anyone else's pension scheme deficit or shortfall.
Employer C	I think that offering the employers those options would be a good idea, provided the problems are just short term and they were able to then fund future contributions going forward. I believe this has been offered in the past

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	especially when academies first converted but I don't know what the uptake was and whether this was a good solution for those employers or for the scheme as a whole As an academy I was told that the DfE would pick up the bill if the academy failed – that's what Mercers told me at the meeting. Is that not the case? Or is it just then passed back to all the other employers?
Employer D	Longer deficit period and for our Trust to be at the average recovery period of 15 years or 18 years if considering affordability
Employer E	Longer deficit recovery period only
Employer F	Slightly longer deficit recovery period
Employer G	The Governing Body would like to know whether we have the option to increase the deficit recovery period, thus reducing the annual deficit recovery amount(s) and phase in the increase to future service % contributions. The school is looking at all avenues to improve the overall (short and long term) budget position. The Governing Body would like to know, if one of these options was possible, what risks, in any, would need to be considered.
Employer H	No, I don't see why we should be on the hook for additional contributions and, if a company has a problem, allowing them to have a longer recovery period is likely to increase the burden on the rest of us
Employer I	Agree that such employers should be offered this option providing we are satisfied about their longer-term covenant strength and / or there is a guarantor in place
Employer J	We welcome the ability for employers with short term affordability problems to be given options to phase in increases or pay off their deficits over longer periods. We believe that recovery periods should be such that they are affordable but do not place undue financial pressures on employers. For HMFA, the reduction in the deficit recovery period from 9 years to 6 years has resulted in a significant increase in our projected contributions despite our deficit reducing since 2016 and we would be interested in understanding whether any alternative recovery periods could be considered. We would also like to understand the process for determining the deficit recovery periods for HMFA and other academies as it is not obvious from the draft FSS why a 9-year recovery period was chosen in 2016 and why this needs to reduce to 6 years for the 2019 valuation. We are also keen to understand the approach that will be taken for the next valuation in 2022 and subsequent valuations. If the deficit recovery period is reduced further from 6 years to 3 years at the next valuation, this would be likely to result in a completely unaffordable level of contributions for us. We do not therefore believe that reducing the period by 3 years at each valuation is a realistic approach.

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	We would expect sufficient due diligence to be undertaken by the Fund to ensure that any employers paying lower contributions now will be able to meet their commitments at a future date, to avoid the risk that remaining employers are not put at risk of increased contributions because of them failing to make the contributions due.
Employer K	As per comment 2, affordability is a current problem area for academies, there should be an option to change the average recovery period back to 18 years or at least phase it in slowly. There should be an option to phase in the increase to future service % contributions. We should only be responsible for our own pot.
Employer L	There should always be scope for the fund to consider this, subject to matters arising, impact on covenant strength and future consideration for the relevant sector
Q4: Whether you plan to make a provision in your contributions for the potential impact of McCloud to give yourself budgeting certainty for the next 3 years? NB the current remedy for the McCloud judgment and the timing of this remedy is unknown. However, employers making a provision at the 2019 valuation by paying the higher suggested McCloud contributions will not have their contributions adjusted before 2023 / 2024, but those choosing to wait for the McCloud remedy to be identified exactly will be asked to pay whatever that turns out to be going forward and to make good on that on a 'backdated to 1 April 2020' basis	
Employer A	We intend to include provision for McCloud in our contributions. There should be recognition of early payment for employers who have chosen this, if there is none we may well opt to place these funds on long-term deposit rather than pay early.
Employer B	As already stated, given the uncertainty of Government policy coupled with the demographic downturn in 18-year olds, the University will experience tight cashflows for the next few years. Consequently, there is no intention to accelerate any payments relating to McCloud, or any other such legal cases. If in the future this crystallises and there is an attempt at backdating a large sum of money, then that will be evaluated then
Employer C	We are not planning to make a provision for the potential impact of McCloud at this stage, partly because of the uncertainty of the outcome and partly because we cannot afford another £20,000 contribution on top of the additional £35,000 which we will have to pay next year compared to this. We are hoping that changes to funding proposed by the government will make a significant difference to us and mean we will be able to cover any additional amounts that may arise because of the McCloud judgment in future
Employer D	No – affordability would not allow us to pay higher rates.
Employer E	Yes, plan to make provision within the contribution
Employer F	We will take advice from our external Auditors

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Employer G	The Governing Body have decided to wait for the McCloud remedy to be identified. As the school would like to know more about extending the deficit recovery period, it would not make sense to commit to this for the time being. The Governing Body have agreed to include the potential figures within the school budget, to be aware of the potential impact. However, as above, the school is choosing to wait for the McCloud remedy to be identified before committing to fund the provision
Employer H	Don't mind, we will pay the contributions that the actuary suggests
Employer I	We would prefer to make provision in our contributions for the potential impact of McCloud, to give certainty for the next 3 years.
Employer M	We had a meeting yesterday within our trust, and we would like our contributions over the next three years to be at the lower risk and include the 0.5% for the McCloud case
Employer J	We would prefer budget certainty over a significant increase in contributions after three years, and therefore plan to make additional provision in our contributions arising from the 2019 valuation rather than waiting for 2023/24.
Employer K	We have planned to make provision for McCloud to ensure we have budget certainty.
Employer L	Yes we would like to do make this provision to get greater certainty of cost impact and reduce the risk of external audit challenge to accounting for likely impact.
Q5: Whether you feel the real pay assumption of CPI + 1.5% p.a. is appropriate? NB this assumption is an average long-term assumption over the total future working lifetime of the active membership of the Fund and should not be considered against any short term budgeted pay restraint.	
Employer A	No Comment
Employer B	The actuaries should be best placed to answer this question but from a University perspective a more realistic assumption would be a flat +2% (i.e. not linked to CPI but reflecting future budget assumptions).
Employer C	As far as anyone can tell in the current climate! The biggest impact in recent years has been the increases arising because of increasing the living wage and the knock-on effect on other pay scales as a result.
Employer D	Our budgets are currently based on no more than 2% pay increase for local government pay scale increases for the next 5 years. Budget pressures mean that this will require savings to be made in other areas to maintain education standards. We would require a short term pay restraint to be factored in to contribution calculations.
Employer E	Probably too high an estimate, CPI + 1% would be more realistic

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Employer F	Yes, realistic
Employer G	Unable to comment.
Employer H	Long term possibly, will all depend on the longer-term direction of travel on NLW as most of our members are impacted by that and in the short term that will continue to run at 4-5%
Employer I	This seems appropriate.
Employer J	Our pay increases are not determined by us and therefore we cannot comment on whether this assumption is appropriate
Employer K	The pay assumption made by LGPS assumes we will be offering the nationally agreed local government pay awards. Historically we do not. According to our budgeted figures for 20/21, our payroll assumption is £76k less than the 2019 valuation estimate. Could this be looked at as it is significantly different to the actuarial figures and could potentially change the current Future Service Rate % which we have been given?
Employer L	From a finance perspective this is reasonable but there is risk not least with whomever is in government post the general election.
Q6: Whether you might be interested in ill health liability insurance: under this (the exact terms would be provided once an analysis of our members has been completed by the insurer) you would pay lower % future service contributions to the pension fund but also pay an additional say 3% contributions which would not be invested in the Fund, but be used to pay the insurance premium. In return for which a contribution would be paid by the insurance company to the pension fund on the occurrence of an ill health retirement. NB For smaller employers, the cost of a single ill-health could have a large impact on your funding position, as an employee aged 30 earning £49,000 who retires on tier 1 ill health is being 'promised' an immediate extra annual pension paid for the rest of their life of (49,000 ÷ 49 * (years between State Pension age of 68 less 30)) = £38,000 p.a. that could be expected to be paid for 50 years (until the employee dies at 80) making a total extra pension paid out of £1,900,000	
Employer A	We are interested in receiving a cost comparison for this
Employer B	Whilst this would no doubt be a 'nice-to-have' the affordability issue would mean that the University would not be interested in this option.
Employer C	We have only had one ill health retirement in the last 16 years since I have been here and that was this year and so I am not sure it has been considered in our figures. Therefore, I am not sure we would be interested based on our own experience to date. However, I can see the benefit if employers had experienced a large volume of ill-health retirements historically.

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Employer D	Likely to be unaffordable considering the educational funding environment and pressures we are under from all aspects
Employer E	Not particularly interested, its complicated enough as it is!
Employer F	Yes
Employer G	Yes. The school would be interested to know more about ill health liability insurance. We would also like to know whether insurance can part fund i.e. 90% of a single ill health claim and how this would impact on contributions.
Employer H	No thank you
Employer I	No, we would prefer to self-insure for this
Employer J	We would be interested in finding out more information, so we can make an informed decision as to whether this might be something we would want to consider.
Employer K	We have no available budget for such provision.
Employer L	Not sure would need to see further modelling to consider the benefits – the council is large employer and the absence of such an arrangement (as is currently the case) may not be material for large employer.