

Appendix E

Pensions

Hosting switches to City

Implications

Summary of findings

Museums Worcestershire has its own pensions 'ghost body', a bubble within a larger pension scheme. Should a hosting switch happen, Hartlebury staff would leave the ghost body and return to the WCC pension scheme. The 'ghost body' would then be smaller.

Although this would not incur one off costs, there would be an annual rise in pension contributions from 16.3% to 16.7%, with a further re-evaluation in 2019. This equates to an extra £1,955 annually from the Museums Worcestershire budget, to be funded by an increase in contributions from each council to the joint service. The smaller ghost body would also be more susceptible to spikes caused by personnel changes, than it would as a larger pension fund, with contributions potentially continuing to increase over time. Further, there is a specific risk of potential unfunded liabilities arising from non-ill-health early retirement costs. This risk currently equates to £130,000.

To avoid this increase in costs and longer term volatility, disbanding the ghost body and pooling Museums Worcestershire City employees with the City Council pension fund is an option. By pooling with City, there would currently be no additional strain on City because, at this point in time, Museums have a surplus. Discussions would be required between Museums Worcestershire and City as to how any allocation of deficit/surplus would be made going forward. City currently has a funding shortfall so under a standard pooled approach, all employers in the pool would pay deficit contributions towards it. The total accrued liabilities of Museums Worcestershire (for to-be City employees) is c £1.7 million as at 31 March 2016. City's corresponding liabilities amounted to c£78 million. Museum Worcestershire would represent just 2% of the pool, if it were established. Therefore, the actuary does not envisage any significant impact on City of taking on this fund. There would be a one off cost of c.£2,000 to disband the ghost body and reassess the pensions.

This report shows the financial impact of retaining a smaller ghost body. It is recommended that serious consideration is given during the next phase to disbanding the ghost body and pooling Museums Worcestershire to-be City staff with the City Pensions fund.

More detail is provided below.

Context

Worcestershire County Council manages the pension scheme for County and City.

Museums Worcestershire's staff were admitted into a 'ghost body' in 2010; a bubble within the wider pension scheme. This means that, with fewer members, impacts are felt more acutely, bringing a risk of higher contributions being required from the Museums Worcestershire budget.

It is possible for the 'ghost body' to be disbanded and, in the event of a switch, for the to-be City employees of Museums Worcestershire to have their pensions pooled with the wider City Council pension fund, potentially alleviating pressure of volatility for Museums Worcestershire's budget.

No assessment report is *required* for this switch in hosting, but an assessment was requested in order to inform this review of the impact of a switch on pensions.

Review of options

The Actuary carried out an assessment report to establish the following:

- Financial impact on the pension contributions for a smaller ghost body once Hartlebury staff leave
- Financial impact on the City Council (and on the County Council's contribution to the joint service) of dissolving the ghost body and pooling those staff with the wider City fund
- Amount of any deficit – a one off cost that would need paying
- Costs of any deferred pensions

Findings

The assessment report was based on 31 March 2016. Changes will have occurred since then, but the principles remain the same. This was a snap-shot study to demonstrate the impact of different options. The report is attached, relating specifically to Option One below. The Actuary additionally provided a narrative to demonstrate the impact of Option Two below.

Findings of this assessment report are as follows:

Option One: Museums Worcestershire to carry on with a smaller 'ghost body' (as an open scheme) for City employees when Hartlebury members return to County Council pension fund.

The impact of this is felt in the pension contributions made by Museums Worcestershire. These employer contributions would rise from 16.3% to 16.7% of pay, meaning £1,955 annually. Further, there is a specific risk of potential unfunded liabilities arising from non-ill-health early retirement costs. This risk currently equates to £130,000. Other financial risks could arise relating to ill-health retirement or death in service.

The £1.7m liabilities in the scheme is made up of 24 actives (c£880k), 5 pensioners (c.£790k) and 2 deferred pensions.

NB: All of these figures may change again, and especially following the 2019 re-evaluation of the pension fund.

In summary, there is an increased annual cost for employer contributions in the case of a switch whilst retaining the ghost body, and a smaller ghost body is susceptible to greater changes – and therefore risk - depending on what happens to individuals within the fund.

Option Two: Disband the 'ghost body' when Hartlebury members return to County Council pension fund. City employees of Museums Worcestershire to be pooled with City Council pension fund.

The Actuary has assessed the impact and provided the following advice:

Past service position –

- The total accrued liabilities of Museums Worcestershire (for to-be City employees) is c £1.7 million as at 31 March 2016. City's corresponding liabilities amounted to c£78 million. Museum Worcestershire would represent just 2% of the pool, if it were established.
- It is anticipated that Museums Worcestershire as it currently stands now has a funding surplus. By pooling with City, there would currently be no additional strain on City as a result. Discussions would be required between Museums Worcestershire and City as to how any allocation of deficit/surplus would be made going forwards. City currently has a funding shortfall so under a standard pooled approach, all employers in the pool would pay deficit contributions towards it.

Future service contribution rate -

- Museum's rate is slightly higher than City's but based on weighted averages of payrolls/rates, the pooled future service contribution rate would remain unchanged at 15.1%.

From the County Council's position, it is not anticipated that they would be directly affected by the pooling. The issues for County Council will be how their funding of Museum Service might be impacted going forwards by pension costs and this can be discussed further with the Actuary.

In summary, there would be a charge of c.£2k for termination of the Ghost Body and re-assessment, and as the fund currently shows a surplus, this would be managed through lower contribution rates.

There would be no further immediate financial cost to City, County or Museums Worcestershire budgets of pooling. However, appropriate splits of responsibilities

will need establishing between City, County and Museums Worcestershire for future management of deferred pensions and future deficit/surplus. (Any negative result of this for MW needs to be balanced against the benefit of a lower contribution rate of 15.1%).

Conclusion

In Option One, there would be an increased employer contribution rate for Museums Worcestershire and some specific risks relating to potential unfunded liabilities. The smaller ghost body would be more exposed to spikes in pension changes.

In Option Two, there would be a small one off cost of c.£2k for termination of ghost body and re-assessment but also the benefit of a surplus, to be managed through reduced contributions. There would also be a lower contribution rate (15.1%) to be paid by Museums Worcestershire (which may increase slightly depending on agreement reached regarding management of City deficit, but is anticipated should still be lower than the current 16.3%). Decisions about split of responsibilities for the future would need to be made.

There are general risks, relating to increases in liabilities, or shortfalls of assets etc, but these occur in all approaches taken including no switch.

Disbanding the ghost body and pooling with the wider City Council pension fund in the event of a switch would seem worth considering as it *may* mean a smoother ride for Museums Worcestershire and should not make a significant difference to the City Council pension fund.

However, certain questions need exploring. These are as follows, and this process has been added to the implementation tasks:

- How deficit or surplus should be split if the ghost body is broken up – one way would simply be to allocate it in proportion to liability value at the time.
- How any pooled rate would work between City and Museums Worcestershire – the key point here is that City currently have a shortfall whereas Museums Worcestershire would join the pool at least fully funded currently. Under a standard pool, all employers typically contribute towards the overall deficit.
- A policy would need to be established on what process to follow should Museums Worcestershire leave the pool. In conjunction with this, Museums Worcestershire needs to be aware of its responsibilities should they terminate (either in or out of the pool).
- Are there alternative ways of allocating the liabilities – for example, would it be possible for Museums Worcestershire to retain current actives only for example? This would reduce the absolute level of volatility for Museums Worcestershire going forwards.