

RAUNDS TOWN COUNCIL

Minutes: 30 July 2019 Time 7.20pm.

PRESENT:

Cllr R Levell (Chair), Cllr L Wilkes, Cllr R Tyman, Cllr H Howell, Cllr O Curtis, Cllr J Duff, Cllr N Beck

IN ATTENDANCE

Miss Kate Houlihan, Town Clerk, Minutes
Miss Joanne Coduri, Assistant to the Clerk

199.19 Apologies for absence

Cllr D Hughes, Cllr B Tirebuck, Cllr S Hughes, Cllr R Beattie, Cllr D Jones

RESOLVED to note the apologies

200.19 Notification of requests from members of the public to address the meeting in compliance with adopted protocol.

NONE RECEIVED

201.19 Notification of members questions in compliance with the council's standing orders.

NONE RECEIVED

202.19 Declarations of Interest.

COUNCILLORS ARE REMINDED THAT IF THEY HAVE EITHER A DISCLOSABLE PECUNIARY INTEREST OR OTHER INTEREST IN ANY ITEM THEN THEY SHOULD DECLARE THE INTEREST AND LEAVE THE MEETING FOR THAT ITEM

The Clerk noted an interest as a member of the pension scheme.

203.19 Resolution Bodies Pool within the Northamptonshire Pension Fund: To approve the recommendation of the Personnel Committee that Raunds Town Council wish to see the retention of the Pensions Pool.

Members reviewed the information as shown in appendix 1 and the Clerk summarised the position.

During the discussion members raised a number of questions around Raunds Town Council's own position and questioned what the implications for Raunds Town Council would be if the pool were to be disbanded. The Clerk explained that this information is currently unavailable.

Members queried whether the council should take independent financial advice on the matter and the Clerk explained at this stage NCC were looking for councils to comment on the consultation based on a point of principal. More detailed financial information would be issued to councils later in the year and there would be a further opportunity to comment and review the information.

It was noted that the pooling arrangements mean there are “winners and losers however it was felt that this collective approach is appropriate given the size of employers in the pool.

Following discussion it was...

RESOLVED that Raunds Town Council wish to see the current pool arrangements remain in place.

There being no further business the meeting concluded at 19:30

Approved: (Town Mayor)

Meeting date:15 August 2019..... (Council)

Appendix 1

1. Introduction and summary

This email is being sent to you as the principal contact at your organisation, given its membership of the Resolution Bodies Pool within the Northamptonshire Pension Fund (“the Fund”). It explains more about the advantages and disadvantages of being in a Pool, why the Fund is considering disbanding the Pool, and what effect that would have. In particular it will affect the rate of contributions you pay from 1 April 2020, and may also influence your policy whether or not to keep new and/or existing members of staff in the Fund.

It would be helpful if you could email us your response to penemployers@northamptonshire.gov.uk by **31 July 2019** to input your views on the contents of this email. The Fund is seeking to take a course of action which is as far as practicable agreed by most, if not all, employers in the Pool.

2. What is the Pool and how is this helpful to employers in the Pool?

There are over 250 different employers in the Fund, each of whom needs to pay contributions which are calculated by the Fund Actuary; the intention is that contributions should be sufficient, when added to investment returns, to pay for the benefits which the Fund needs to pay out for the employer’s members and ex-members when they retire or die. Most employers have their individual position in the Fund calculated separately so that they can see their own funding level (how their asset share compares to the cost of their benefit obligations) and resulting contribution rate; however the Pool within the Fund operates differently.

The Pool was set up by the Fund many years ago to assist employers of a similar type (town and parish councils) to meet the Fund obligations referred to above. For employers with a very small number of members, such as your organisation, relatively small changes in the membership profile from time to time could give rise to very large changes in your contribution rate. These changes include:

- New members joining
- Members leaving

- Members retiring early (particularly in ill-health)
- Members receiving pay rises different from that assumed.

Pooling smooths out these changes to minimise contribution rate volatility.

3. How is the Pool contribution rate currently calculated?

The Fund Actuary calculates all employers' funding position individually. For non-Pool employers this individual position is what drives their contribution rate. However, for Pool employers, the Fund Actuary combines these figures across all employers in the Pool, and sets a single contribution rate as if all the Pool employers together were one body. As described above, this approach will smooth out contribution volatility over time for all employers in the Pool.

It should be noted that each employer within the Pool still has its individual position calculated by the Fund Actuary, however it is not these individual positions but the combined position which drives your contribution rate at present. Some employers are better funded than others in the Pool, due to their membership changes over the years:

- For instance, suppose one organisation's (few) employees were younger than the Pool average, or if it restricted pay rises to below the Pool average, or if its members did not live as long in retirement;
- All of these factors would result in a lower cost for its benefit obligations all other things being equal;
- However the employer would still be paying the same (Pool) rate of contribution which would then be reflected in a higher asset share compared to the cost of that organisation's benefit obligations;
- NB the opposite situations would give rise to a poorer funded position than average.

If all Pool employers had the same experience (eg of employee age, pay rises, pensioner longevity) then that experience would affect the whole Pool and all its members equally. However in practice different employers have different experience which affects them differently.

In summary, whilst the Pool contribution rate applies to the Pool as a whole, it is in fact the average of a range of benefit costs across the different Pool employers.

4. What has changed in recent years?

When the Pool was formed there were good reasons for pooling employers in the way described above to minimise their contribution volatility. However, in recent years there have been some changes which mean it is worth reconsidering the benefits of the Pool:

- Pooling works well when all employers continue in business: the fact that there are different underlying positions is only really relevant **if an employer wishes to leave the Fund**. In the past there was little if any turnover in the employers in the Pool, however in recent years there has been more evidence of employers leaving or enquiring about leaving. This places pressure on one of the principles of pooling.
- Under previous LGPS Regulations, if a Resolution Body such as your organisation decided to leave the Fund, it did not need to pay any "cessation debt", i.e. a closing deficit contribution. However, Regulations changed a few years ago which now mean a Resolution Body will **typically need to pay a cessation debt** if/when it leaves. This means that the individual funding positions become crucial for Pool employers in those circumstances.
- The national LGPS benefit structure continues to be very generous to employees, which implies being costly to employers. The public sector pensions reforms introduced a few years ago have, if anything, **increased the costs to employers in the current low pay growth environment** (since, for active members, the current

“CARE” scheme automatically awards full CPI increases to accrued benefits regardless of actual pay rises).

- More employers are reconsidering whether to maintain Fund membership, but cannot determine the costs of leaving (to be balanced against the costs of staying) **without knowing their individual funding position**. This is putting greater pressure on the current pooling structure.
- One of the key events which could significantly worsen an employer’s funding position, and therefore increase its individual contribution rate, was if an employee had to take ill-health early retirement. It was to protect against such eventualities that the Pool was formed. However, **the Fund now has a form of internal ill-health insurance for all employers**, so the Pool no longer provides added protection for its employers against this type of situation.
- Pool employers’ active membership does not change significantly over the years, leading to **a gradual ageing of the membership** thus pushing up contribution rates.

5. What is less helpful to employers about being in the Pool?

Taking the above points on board, it can be seen that there are a number of areas which have arisen which are less helpful to Pool employers. In addition, there is the broader issue that if an employer proves to be materially better (or worse) funded than the Pool average,

- (a) then the Pool contribution rate will be higher (or lower) than it needs to be,
- (b) in other words the employer’s “real” cost is lower (or higher) than what they are paying,
- (c) which means that, over time, the employer’s funding position will become even better (or worse), i.e. any differences could become more pronounced as the years go by.

Whilst the Pool would originally have helped employers have less volatile contribution rates, this was always at the expense of information about each employer’s own position. When employers were less likely to leave the Fund, this was considered an acceptable trade-off; however the points mentioned above mean that employers are more likely to seek their own position, which is not compatible with adopting a pooled position.

6. Why is the Fund considering disbanding the Pool?

Following the above, the Fund commissioned analysis from the Fund Actuary to help determine how varied the different employers’ positions are within the Pool. This analysis showed there is a wide spread, so that some employers are paying materially more than they ideally would, and others paying materially less than required.

As a result of this analysis, and considering the points mentioned above in particular regarding employers’ requirements if they were to leave the Fund, we have decided to consult with all employers on the possibility of disbanding the Pool. There was a meeting on 7 May to which all employers were invited, which was attended by some and which allowed a helpful and free-ranging discussion. We promised at that meeting to follow up with this more detailed communication.

7. What would be the impact of disbanding the Pool?

If the proposal was to go ahead, the impact on employers such as your organisation would be:

- the Pool would no longer operate for any employers;
- each employer would be advised of its own funding position* as at the 31 March 2019 formal valuation date;
- each employer would be advised of its contribution rate applicable from 1 April 2020, based on its own funding position*;

- any future membership changes, early retirements, pay awards etc among the employer's own workforce (and ex-employees) would flow through to its own funding position, giving rise to changes in its contribution rate from the following formal valuation. For instance, pay awards higher than assumed would cause the contribution rate to go up, ex-employees dying in retirement earlier than expected would cause the contribution rate to fall, etc;
- the approach to setting contributions would be no more favourable than under the current Pool, so the impact on your organisation's contribution rate would not arise simply from the Pool disbanding, but instead on factors such as how the assets are divided on disbandment*, your current and future membership, whether your organisation seeks to leave the Fund and/or restrict future membership, etc;
- any future membership changes, early retirements, pay awards etc among **other** employers (and their ex-employees) would **not** affect your own funding position or contribution rate.

*The Fund is considering two different approaches to dividing the Pool's assets among the employers:

- a) assign assets as per each employer's actual experience to date, so that some will be materially poorer funded than the Pool average as at 31 March 2019 and others will be materially better funded than the average;
- b) assign assets as per the Pool average funding level, i.e. each employer will get an equal asset share relative to its liabilities, which would be higher or lower than their individually assessed asset share, on the grounds that all have paid the same required contribution rate over the years.

The Fund is minded to adopt approach (b), and we would be interested to hear your views on this too.

8. Next steps

This is an important issue which will affect your contributions from 1 April 2020 and also possibly your future membership of the Fund. Therefore you are encouraged to email us at penemployers@northamptonshire.gov.uk by **31 July 2019** to input your views on the contents of this email. In particular:

- i. Do you think it is more helpful to continue the Pool in its current form, or to move to individually-assessed contribution rates?
- ii. Are there situations where the continuation or disbanding of the Pool would be particularly helpful to you, for instance if you are considering whether to continue membership of the Fund at all, or merging your activities with another organisation;
- iii. If the Pool was to be disbanded, do you have a preference for the asset division approaches (a) or (b), and why? You will appreciate we will not be sharing your own individually assessed position: we are seeking views on the points of principle involved, rather than the cost impacts. In effect this is a "zero sum situation", ie for every employer which might "gain" from a given course of action, there is another which would "lose".

The Fund is seeking to take a course of action which is as far as practicable agreed by most if not all employers in the Pool.

We look forward to hearing from you.

DRAFT