

REPORT TO:	LOCAL PENSION BOARD 21 April 2016
AGENDA ITEM:	8
SUBJECT:	Follow-up on the calculation of newly-converted Academies' pension deficits
LEAD OFFICER:	Richard Simpson, Assistant Chief Executive and section 151 Officer
LEAD MEMBER:	Councillor Wentworth, Chair of Pension Committee
PERSON LEADING AT THE BOARD MEETING:	Richard Elliott Employer representative on the Board

1. EXECUTIVE SUMMARY

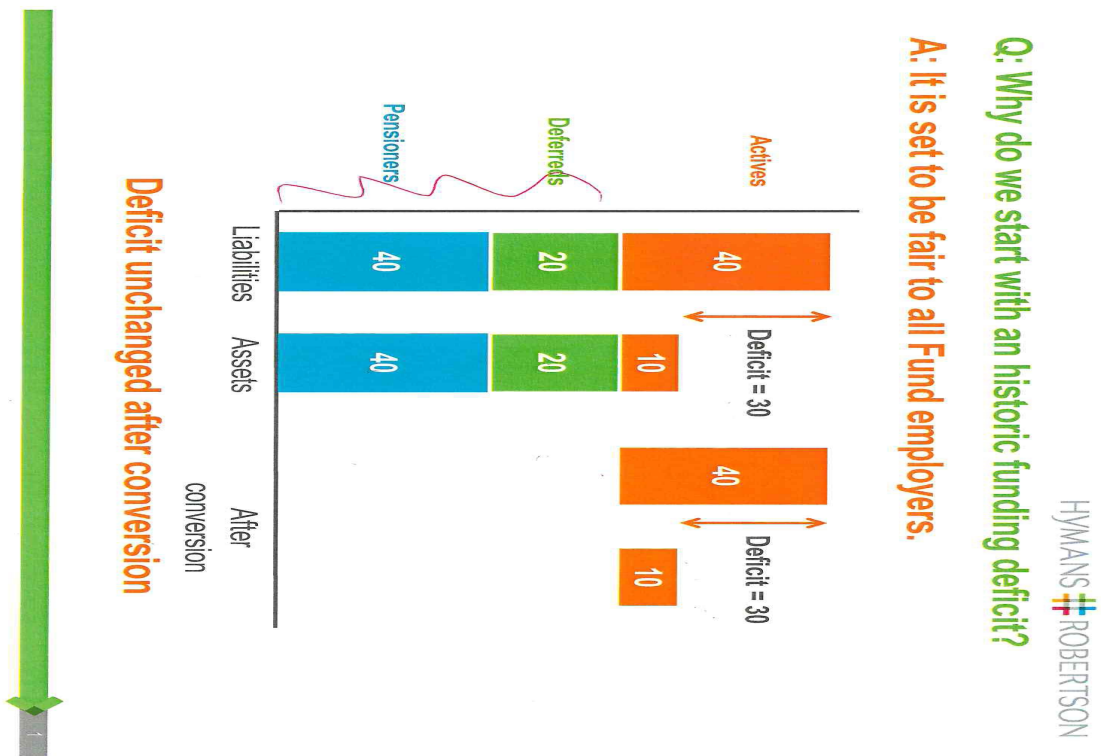
- 1.1 This report summarises my meeting with the scheme's actuaries concerning the way in which newly-converted Academies' deficits are calculated following the discussion at the last meeting.

2. REPORT

- 2.1 At the close of the discussion about Academy deficits on conversion at the last Pension Board meeting I offered to meet with the actuaries to try to understand the principles involved. This is my report concerning my meeting.
- 2.2 The actuaries gave me the graph overleaf to explain the principles involved; it shows the situation based on an LA scheme which is 70% funded. Under the policy adopted by the Council, the cash amount of the deficit remains unchanged (as stated in the papers), but because the new Academy does not take over the residual liabilities for deferred and pensioner members that deficit is set against a much smaller amount of liabilities. So in the attached example, the scheme will go from 70% funded to 25% funded with the same cash deficit.
- 2.3 This way of dealing with the issue lies between two other possible treatments, one of which would be less advantageous to the new Academy, and the other more advantageous:
- 2.3.1 Converted academies could be left with the liabilities for deferred and pensioner members as well as active members. In this case, the current cash value of the deficit would be the same as in the method adopted, but the retention of responsibility for deferred and pensioners' liabilities would increase risk and probably increase costs in the future. The only way in which this option would be better than that used is that the level of funding remains at a relatively

respectable level (70% in the attached model) rather than a much lower figure (25%).

2.3.2 Alternatively, converting Academies might want to advance an argument that the 30% underfunding should be spread between the three classes of members rather than concentrated against active members. However, to adopt this method would be to reduce the new Academy's deficit and therefore its costs going forward compared to its situation immediately prior to conversion, so it does not seem to me that this alternative approach would be manifestly more reasonable than the one adopted.



3. RECOMMENDATIONS

3.1 To note the contents of the report

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BACKGROUND DOCUMENTS:

None

ATTACHMENTS:

None