HYMANS ROBERTSON

Briefing note

Academies Pension Accounting FAQs

Thank you for joining us for our recent webinar on pension accounting for academies.

There were lots of great questions raised during the webinar, so as promised please find below the key questions and answers. As always, please do let us know if you wish to discuss these or other LGPS-related questions.

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Questions and answers:

Q Can I request a single report when I participate in multiple funds?

A Yes, although it would usually incur a higher fee. Please get in touch with Craig if you'd like to discuss this further (Craig.Alexander@hymans.co.uk).

Q We have academies in multiple funds dealt with by multiple Actuaries. What are the pros and cons of individual vs FRS102 reports in MATs, and how could we have combined accounting reports?

A It's usually an individual decision as to how you want to report the obligations in the MAT accounts. There can be cost savings going forward to have a single report, but there is usually a higher cost in the first year when the reports are first combined. If you get in touch with Craig he can give you more details.

Q Why is there a change this year on the assumptions and board responsibility?

A The assumptions have to be set in line with the accounting standard and will be affected by the market. For example, the discount rate has to be determined with reference to a corporate bond yield on the accounting date, which will change each year. The accounting standard states that the assumptions are the responsibility of the directors (or equivalent) and there is no change to this year from prior years. However, in general there is more audit scrutiny this year where further checks and discussions may be required to ensure that you are happy with the assumptions adopted being appropriate for your organisation.

Q What inflation rate has been used to estimate future years?

A In order to comply with the accounting standard, we set inflation in line with the market's expectation for CPI as at the accounting date.

Q If our MAT was to acquire a new school from the local authority, might they bring a deficit with them, or do local authorities somehow avoid accumulating deficits?

A Yes, it is possible that the new school will bring with it a share of its staff past service funding deficit (on funding and/or accounting assumptions). The amount of any deficit will vary from school to school and depend on both the particular Fund's funding level, and how it determines the amount of the transfer payment to your notional section of the Fund.

Q Our liabilities keep going up and up. Is it worth contacting the fund to increase our contributions before the next assessment?

A Liabilities are expected to grow as a result of new benefits being earned by members. Assets are also expected to grow as a result of contributions being paid and investment returns being earned. All else being equal, a deficit will arise if asset growth does not keep pace with liability growth.

Note however, that liabilities in your FRS102 accounting disclosures can be significantly different from the liabilities that the Fund assesses when setting cash contributions.

If you have any concerns, we suggest contacting your Fund in the first instance. They will be able to provide more details on your position with the Fund. However, it is not common for there to be a request for an increase in contributions between valuations.

Q Is there any expectation that dividends/returns will increase in future years?

A Most LGPS funds are invested substantially in return-seeking assets, such as equities. While over the long term these investments are expected to provide greater overall investment returns than bonds and cash, for example, by their nature they can be more volatile in the short term.

Q Some of our staff are in funds that aren't advised by Hymans Robertson. Do the same principles apply to their pension accounting figures?

A Yes, the general accounting principles discussed om the webinar apply.

Q Are the assumptions used within FRS102 for the fair valuation of assets realistic then?

A The assets are at market value to comply with the accounting standard (and for consistency with the market value of obligations).

Q Is the government still underwriting the liabilities?

A DfE act as a guarantor for the pension liabilities for academies.

Q Our membership profile has changed significantly since March 2019 as we're a new, growing academy. Most new staff are either new teaching assistants or admin staff coming in from the private sector. A few staff from other schools, but the majority have no previous LGPS service. Should we be requesting a new FRS102 report with current member data?

A If the members are in the LGPS, the payroll data in the FRS102 report will reflect the contributions being paid in respect and therefore be included within the assets. Similarly, the obligations will reflect the benefits that they have been earning (as the service cost is calculated with reference to the payroll). However, any past service transferred in won’t immediately be captured in the FRS102 disclosures (until after the next formal funding valuation). If this past service history was significant, we would suggest you consult with your auditor to ensure they are satisfied with the rollforward approach.

Q Regarding outsourcing risk, is this the risk to the contractor or to the Academy?

A Depending on how the contract is set up - all the risks could lie with the academy, all risks with the contractor or a risk share between the parties. Your individual LGPS Fund will able to provide helpful guidance on this. Alternatively, drop us an email and we can put you in touch with an appropriate person at your LGPS Fund, if it is advised by Hymans Robertson as the actuary.

Q We outsource our payroll processing for example. It would be a typical general contract agreement whereby it is the outsource company's staff who probably aren’t in a LGPS at the moment. So, I assume there wouldn't be a pass through responsibility?

A If the staff aren't in the LGPS, they are most likely in a DC arrangement with the contractor and therefore there would be no pass-through responsibility.

Q When you say outsourcing, is this TUPE?

A That’s correct. Under Government policies, when current staff in the LGPS at an academy move to a new contractor to carry out an existing service, they must still be provided access to LGPS.

Q How is LGPS contribution data submitted to Hymans Robertson?

A The Fund will typically supply all of the relevant contribution and membership data on your behalf.

Funding questions

Q When will we be notified of the new contribution rates?

A The new contribution rates will be assessed at the next LGPS valuation (31 March 2022 in England and Wales) and they become effective a year later (from 1 April 2023). Your Fund should notify you of any change to your contribution rate in late 2022 or early 2023. Your Fund should be able to provide more details.

Q Can you confirm regarding the contribution rates - the FRS102 service costs do not impact our cash contributions?

A That’s correct. FRS102 service costs can often be significantly different figures to your cash contribution requirements to the Fund.

Q What is your view of the ill health liability insurance?

A Ill-health early retirements can be costly and have a material impact on your balance sheet. Different Funds (and employers) chose to manage this risk in different ways, and ill-health insurance is one method of doing that. We would encourage you to be aware of the significance of this risk and ensure that is being managed appropriately.

Q When is the next valuation for the Teachers’ Pension Scheme?

A Every four years, the Government Actuary's Department (GAD) carries out a valuation of all unfunded public service pension schemes, including the Teachers' Pension Scheme. The last reported valuation was as at 31 March 2016, and resulted in the employer contribution rate increasing with effect from 1 September 2019. Based on this, we understand that GAD has already started carrying out the latest valuation and we might expect any changes in contribution rates to apply from around September 2022 or 2023.

What is your biggest LGPS challenge at the moment?

Thanks to everyone for responding to the question on your biggest LGPS challenge in the survey.

We've pulled together the key challenges that were raised and have set out our thoughts below. If you have any further questions, please let us know – our contact details are at the start of this FAQ.

Valuation liabilities and contributions

Challenge There were a number of concerns raised around the LGPS valuation, how employer costs have changed and might change again after the next valuation, and how the MATs and individual academies can budget for these changes. There were similar concerns regarding the accounting figures.

Our thoughts When setting contribution rates, Funds (and us, as actuaries) have stability of contributions in mind. We expect that good investment performance will have improved funding positions at the valuation with (all other things being equal) a reduction to secondary rates. However, the cost of providing future benefits has risen, which increases the primary rate. The balance of these will depend on the employer and Fund circumstances.

Challenge A few MATs were interested in understanding how they could go about consolidating all their academies into a single LGPS fund.

Our thoughts Consolidation is an increasingly hot topic with many MATs currently considering this. While this is achievable, it requires support from the Funds involved and the costs involved can be high. However, we have a lot of experience in this area and our project management team can provide guidance on the steps involved. Please let us know if you would like more details.

Challenge There were a few concerns about the McCloud judgment, and a key concern was around collating the information the Funds will need to carry out the rectification exercise.

Our thoughts Your Fund will be best placed to provide guidance on the member data requirements.

Challenge A few MATs were keen to have a better understanding of the accounting disclosures and implications for the balance sheet.

Our thoughts Hopefully after the webinar you will have a clearer understanding of these. However, if there are any remaining concerns or uncertainty please let us know. We are happy to provide a 1-1 session for you, present to your board of governors etc. Please get in touch to find out more details.