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Scottish Borders Council Pension Fund 2017 valuation – Individual employer results

Introduction

We are currently in the process of carrying out the actuarial valuation of the Scottish Borders Council Pension Fund (the Fund) as at 31 March 2017. The purpose of the valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2018 to 31 March 2021 as required under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 (the Regulations) as amended.

This note sets out the initial contribution results for the active employers in the Fund and further considerations to be made in respect of these employers.

This note is addressed to Scottish Borders Council as administering authority to the Fund and is intended to be used in considering the appropriate rates to be set for each employer as part of the 2017 valuation.

The results in this note are based on the methods and assumptions set out in our Initial results and assumptions advice (dated 16 November 2017) and should be read in conjunction with that report.

This advice complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 300: Pensions (TAS 300) as issued by the Financial Reporting Council (FRC).

Proposed contribution rates

The purpose of the valuation is to set appropriate contribution rates for each employer in the Fund. The total contribution rate is made up of:

- The primary rate which, as defined by Regulation 60(5) is the contribution required in respect of the cost of future accruals which, in the actuary's opinion, should be paid to a fund so as to secure its solvency; and
- The secondary rate which, as defined by Regulation 60(7) is an adjustment to the primary rate to reflect an employer's own situation and which then results in the employer's total contribution rate.

At the 2014 valuation, some employers were pooled for funding purposes. This means that they shared experience of risks within their funding pool. Assets were reallocated within each funding pool to ensure each employer in the pool had the same funding level, and each employer in the pool was certified the same level of contributions.

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The table below sets out our proposed contributions for the period 1 April 2018 to 31 March 2021 if the pooling of these employers remains the same.

Code	Employer	Current rate for the period to 31 March 2018	Proposed rate for the period starting 1 April 2018		
			Primary rate	Secondary rate	Total rate
Scottish Borders Council Funding Pool					
11	Visit Scotland	18.0%	20.6%	(2.6%)	18.0%
13	Borders College	18.0%	20.6%	(2.6%)	18.0%
16	Scottish Borders Council	18.0%	20.6%	(2.6%)	18.0%
24	AMEY	18.0%	20.6%	(2.6%)	18.0%
25	SB Cares	18.0%	20.6%	(2.6%)	18.0%
Leisure Trust Funding Pool					
21	Jedburgh Leisure Facilities Trust	15.5%	21.0%	(5.5%)	15.5%
22	LIVE Borders	18.0%	21.0%	(3.0%)	18.0%
Individual Employers					
19	Scottish Borders Housing Association	19.0%	22.9%	(3.9%)	19.0%
27	CGI	19.8%	23.7%	(4.7%)	19.0%

The assessment of each employer's assets and liabilities revealed a surplus and therefore the secondary rate adjustment is included to utilise some of this surplus to maintain the total contribution rates at the current level. The secondary rate adjustment has been set at a level which maintains the contribution rates payable by each employer without adopting too short a surplus spreading period and helping to maintain future contribution stability for each employer.

With the exception of the results for Scottish Borders Housing Association and CGI, the Projected Unit Method has been adopted for the results shown above. This method assumes the employer still admits new employees to the Fund. For Scottish Borders Housing Association and CGI, the Attained Age Method is adopted as we understand the employer is closed to new entrants and so this method assesses the cost of benefits over the expected remaining working lifetime of its members. Further details of these methods can be found in our Initial results and assumptions advice document.

Change in pooling

The results set out above assume that the pooling arrangements are to remain in line with those adopted for the 2014 valuation. However, events have taken place over the intervaluation period which may merit a change in pooling arrangement and this, and the results in light of the changes, are set out below.

Leisure Trust Funding Pool

At the 2014 valuation, the Leisure Trust Funding Pool was formed of LIVE Borders (formerly Borders Sport and Leisure Trust) and Jedburgh Leisure Facilities Trust. Over the intervaluation period, there was a large transfer of staff from Scottish Borders Council to the former Borders Sport and Leisure Trust to form LIVE Borders. As a result of this, the assets and liabilities of LIVE Borders are now significantly higher than those of Jedburgh Leisure Facilities Trust so it may not be appropriate to pool these two employers together as the results would be very heavily weighted towards the larger employer.

Please note that following the transfer of staff to form LIVE Borders, a rate of 18.0% of payroll p.a. became payable by LIVE Borders. The rate for Jedburgh Leisure Facilities Trust remained at 15.5% of payroll p.a. Please let us know if this is not the case

Valuing both employers individually would lead to the following results:

Code	Employer	Current rate for the period to 31 March 2018	Proposed rate for the period starting 1 April 2018		
			Primary rate	Secondary rate	Total rate
21	Jedburgh Leisure Facilities Trust	15.5%	20.1%	(4.6%)	15.5%
22	LIVE Borders	18.0%	21.0%	(3.0%)	18.0%

Another option would be to add Jedburgh Leisure Facilities Trust to the Scottish Borders Council Funding Pool in which case the employer's contribution rate would be the same as that of all other employers in this Pool, i.e. a total rate of 18.0% of payroll p.a.

Amey

It may be appropriate to not pool Amey together with the other employers in the Scottish Borders Council Funding Pool due to its admission body status. It is common that admission bodies in the LGPS do not stay in the LGPS permanently which may justify them not participating in a funding pool. This means that the costs paid by the short term employer will be in relation to its own experience rather than potentially subsidising another employer's experience in the Fund.

If Amey is to be taken out of the Scottish Borders Council Funding Pool and is treated as an individual employer in the Fund then the primary rate would be 25.2% of payroll p.a.

If the Fund wishes to maintain stability of Amey's current rate, a secondary rate adjustment of -7.2% of payroll p.a. would be required to give a total rate of 18.0% of payroll p.a.

SB Cares

This employer joined the Fund on 1 April 2015 following a transfer of staff from Scottish Borders Council. There is a special arrangement in place such that the responsibility for the liabilities in relation to pre-transfer service ultimately remains with Scottish Borders Council. By being in the Scottish Borders Council Funding Pool, SB Cares is sharing its responsibility for the post-transfer liabilities with the rest of the employers in the pool rather than being solely responsible. We therefore think it may be appropriate to treat SB Cares as an individual employers in the Fund, such that the contributions payable by the employer are based only on the post-transfer liabilities and the employer's own experience.

Based on SB Cares being an individual employer in the Fund, the primary rate would be 21.3% of payroll p.a. This would be the rate required to cover the cost of future accrual of benefits. Please note that this assumes SB Cares is open to new members; if the employer is closed to new members then this primary rate should be updated.

The valuation has revealed a deficit attributable to the post-transfer benefits accrued with SB Cares. The main reason for this is more ill health retirements since the employer joined the Fund than assumed. We have assumed that the additional cost in respect of members receiving retiring due to ill health post-transfer falls with SB Cares. If this is not the case then please let us know.

The deficit attributable to the post-transfer benefits of SB Cares is £336k, corresponding to a funding level of 94%.

Based on a deficit recovery period of 20 years, an additional 0.3% of payroll p.a. would be required from SB Cares to target a fully funded position by the end of the deficit recovery period. This would give a total rate of 21.6% of payroll p.a.

We would be happy to answer any questions arising from this note and look forward to discussing this with you further.

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