



Everything you needed to be aware of in pensions

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19 May 2022



Who is Quantum?

An independent pension actuarial advisory firm

Five locations in the UK – Cardiff is our head office

Help employers and trustees run their pension arrangements

Services we provide include:

- Actuarial
- Administration
- Consultancy
- Investment
- Pensioner payroll
- Pension accounting services
- Flexible benefits
- Health and Wellbeing

Agenda

1. Pension accounting disclosures – LGPS and SHPS
2. 31 March 2022 LGPS valuation
3. SHPS funding update
4. Defined Contribution (DC) update
5. National Insurance changes



1. Pension accounting disclosures – LGPS and SHPS



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Pension accounting disclosures

An employer's share of SHPS/LGPS assets and liabilities are calculated by an actuary for inclusion in financial statements

Result different to SHPS/LGPS funding valuation – method, assumptions, date

Balance sheet and income statement calculated by an actuary – subjective

Employers are responsible for assumptions and results – actuarial advice

Provisional assumptions can be amended on request

Net liability recognised on balance sheet

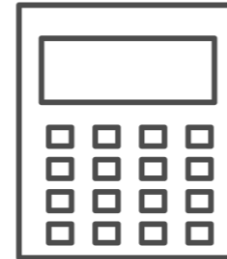
The balance sheet position is a comparison of the **present values** of:



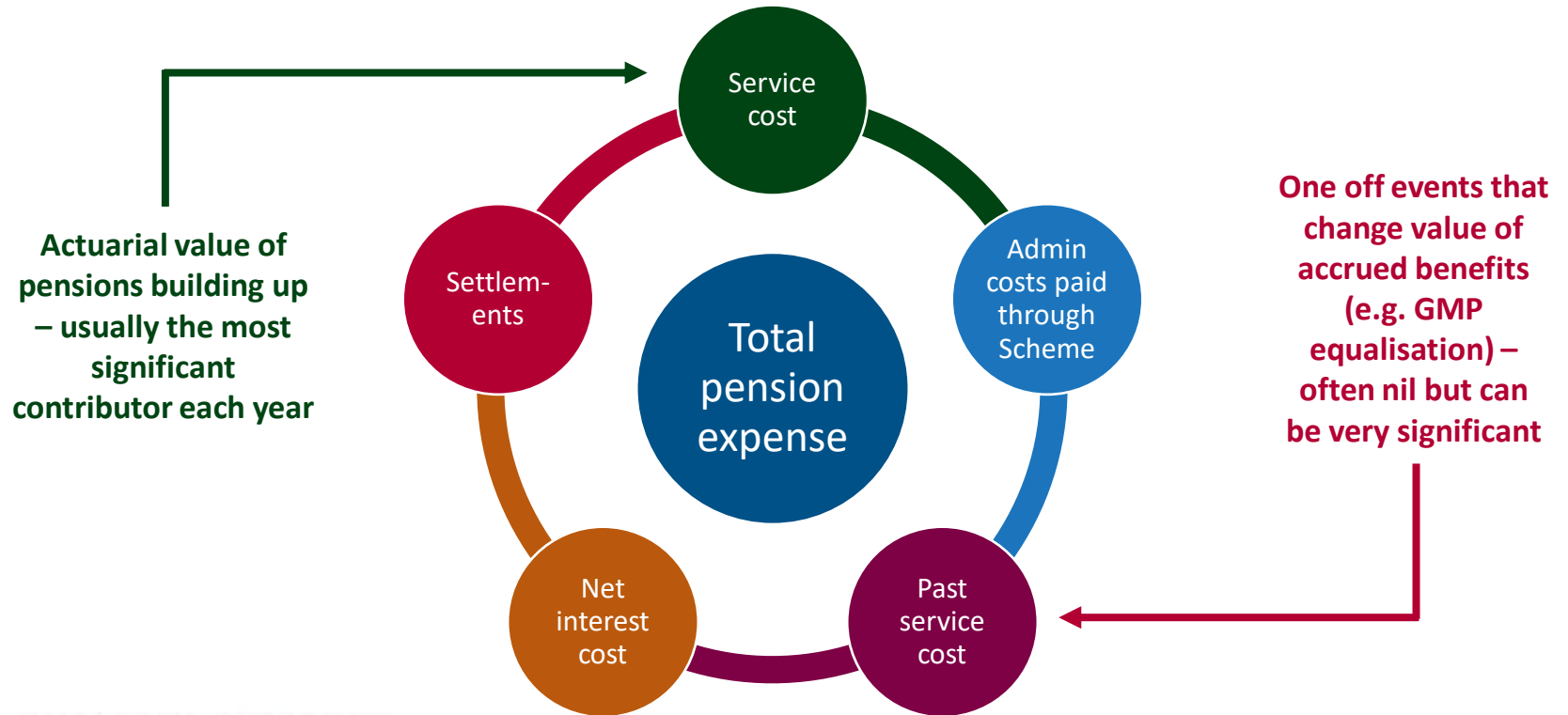
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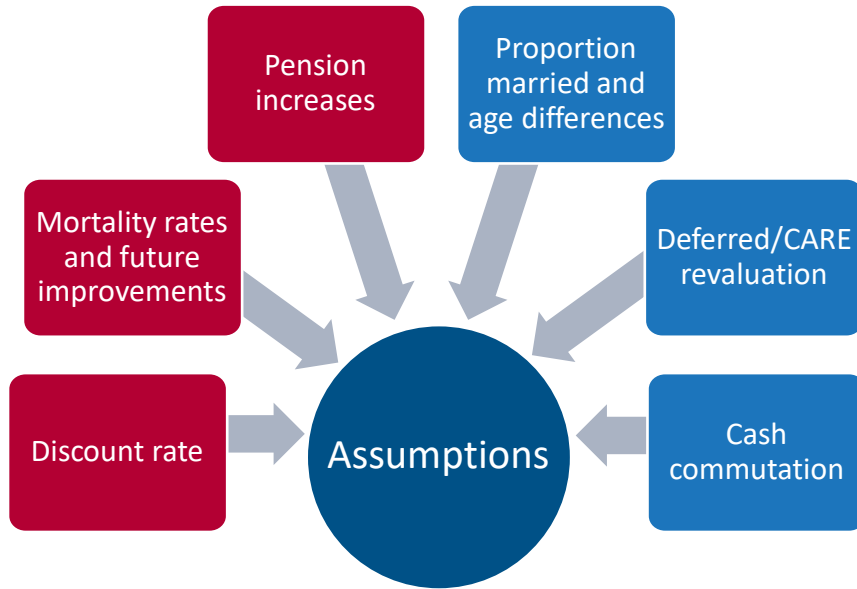
Simple.....in theory ?!



Income statement – total pension expense

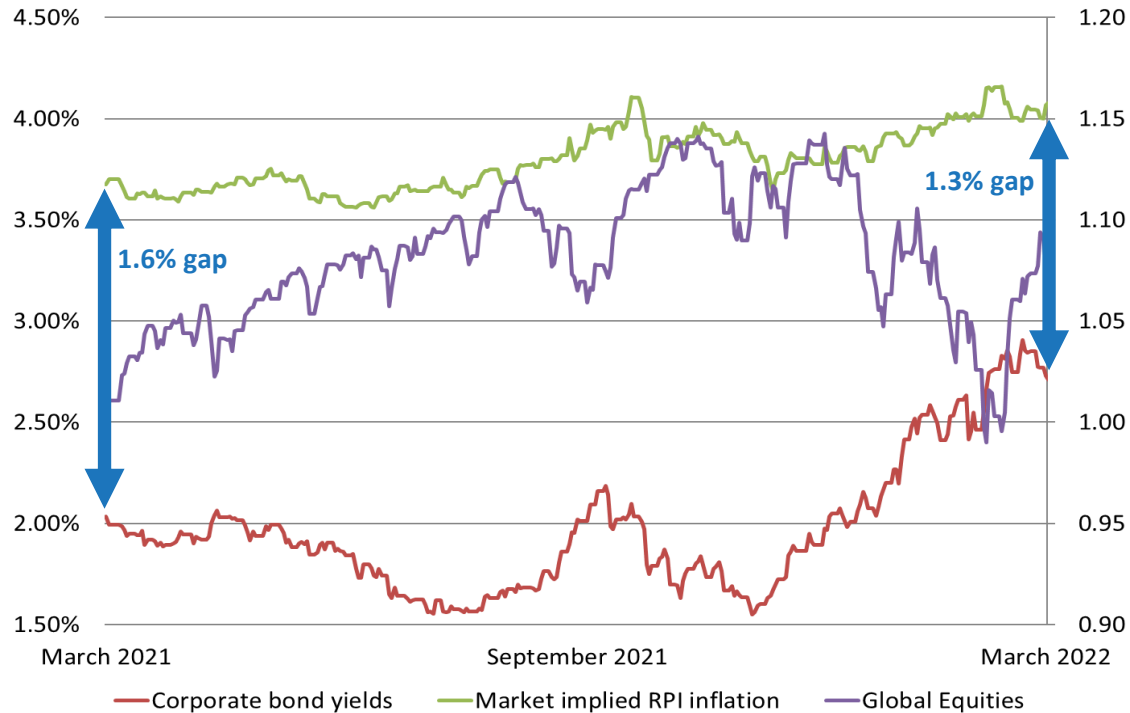


Assumptions



- Used to calculate value of pension liabilities and service cost
- Service cost – last year’s assumptions
- Balance sheet liabilities – this year’s assumptions
- Discount rate set using yield on high quality corporate bonds
- Other assumptions not prescribed but must be broadly best estimate (i.e. no prudence)
- Many assumptions derived from the market

Balance sheet as at 31 March 2022



- Global equities rose over the year
- Assets likely to have performed well
- Corporate bond yields increased by more than inflation
- Liabilities likely to have decreased
- Balance sheet improvements expected
- LGPS improvement perhaps better than SHPS

Benefits of actuarial support

Independent actuarial support is key

Good governance to review and approve actuarial assumptions each year

Independent actuary can also explain results to management and suggest assumption changes

Independent actuary can support the employer throughout the audit process

Quantum can assist with these things if needed

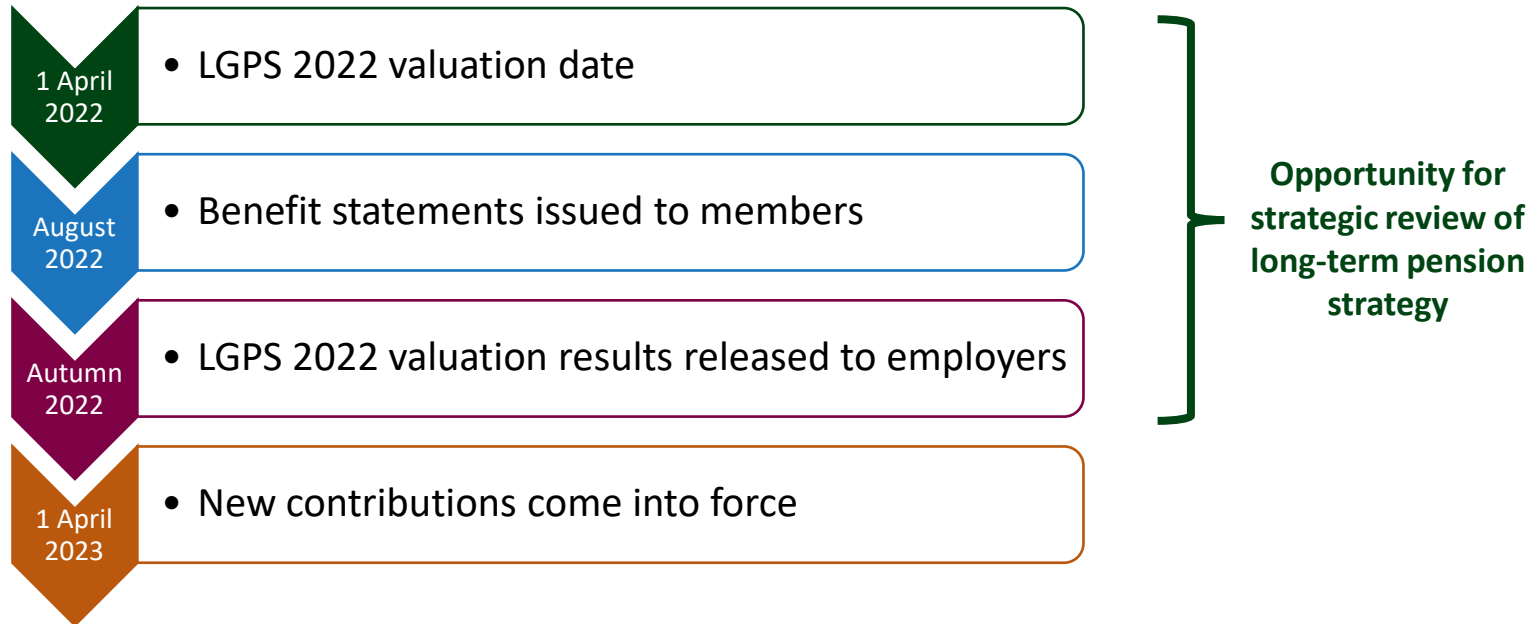


2. 31 March 2022
LGPS valuation

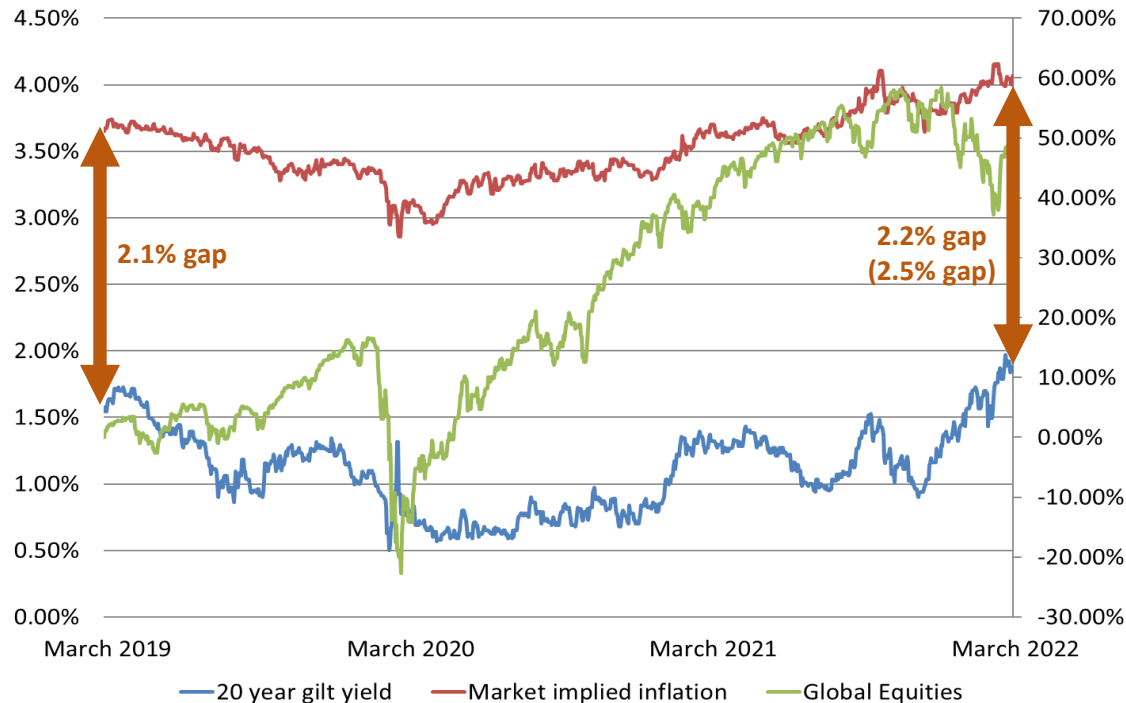


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2022 LGPS valuation timetable

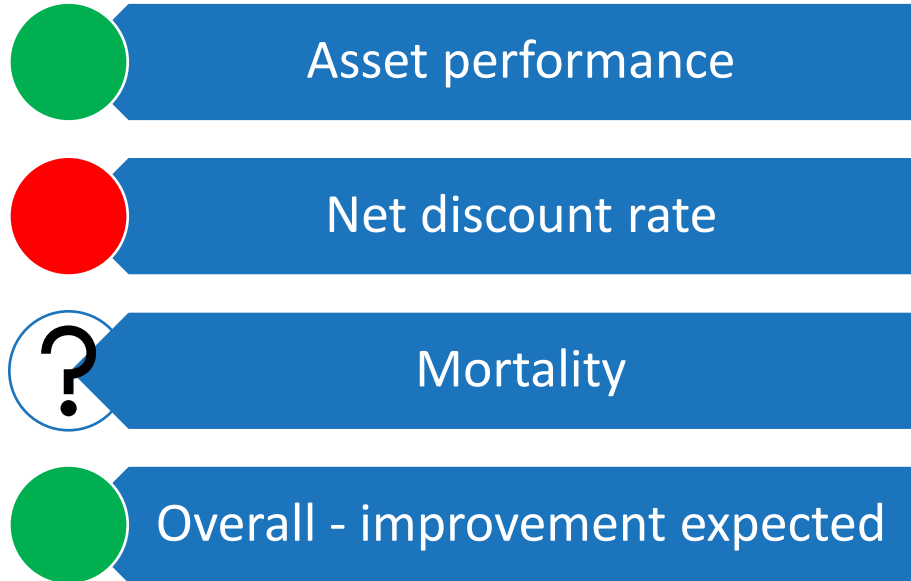


2022 LGPS valuation – results?



- Global equities rose significantly over the period
- Diversified portfolios likely to have performed well
- Inflation increased by more than gilts – RPI reform will make this more pronounced
- Liabilities likely to increase

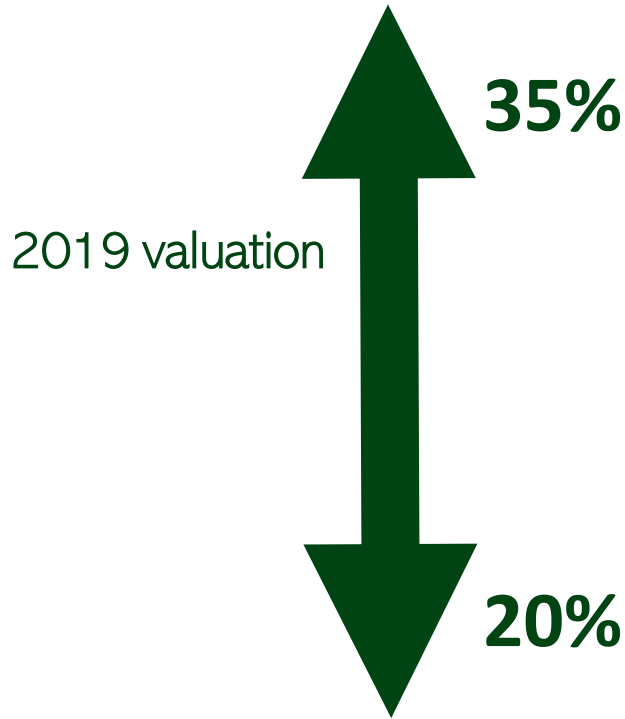
Overall impact to funding levels – past service contributions



Past service contributions might reduce but Fund actuaries are likely to be cautious when reducing contributions



Future service contributions



Contribution levels depend heavily on age of workforce, whether still open to new entrants, future salary increase expectations

Impact to future service contributions at 2022 valuation similar to past service contributions *EXCEPT* no benefit of positive asset performance

Future service contributions therefore expected to increase following 2022 valuation

Overall Impact on your total pension contributions will depend on proportion of active members

Importance of a long-term vision

- Carry out LGPS strategy review in conjunction with the valuation
- Understand the risks and costs being built up ahead of time
- Identify the options available and be equipped to make changes
- Expert assistance to discuss funding options with the LGPS Fund directly



3. SHPS funding update



Reminder: SHPS 30 September 2020 DB valuation results

Funding results (£m's)	2017	2020
Assets	4,553	5,148
Present value of benefits promised to members	6,075	6,708
Surplus/(deficit)	1,522	1,560
Funding level (assets/present value of benefits promised to members)	75%	77%

Source: TPT

Positive experience

- Good investment performance of assets
- Deficit contributions from employers
- Impact of ten bulk transfers out of SHPS

Negative experience

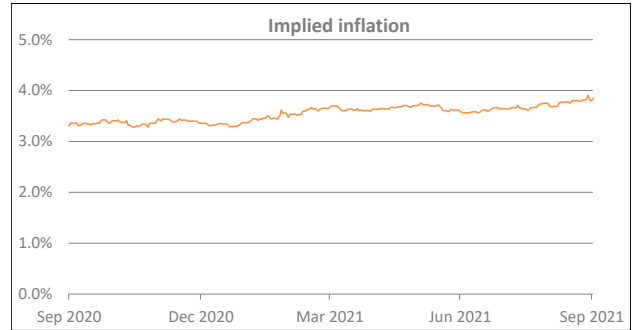
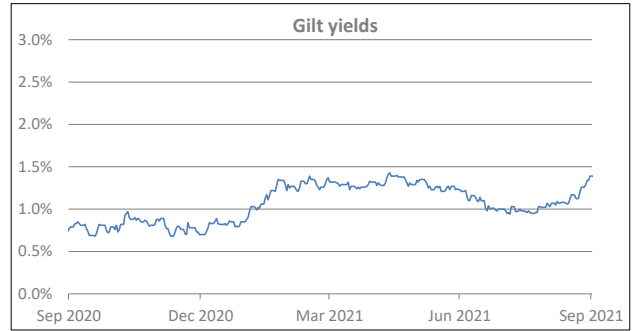
- Change in financial conditions

Deficit broadly similar to three years ago despite all the additional contributions from employers

Financial markets over the 12 months to 30 September 2021



What does it mean
for SHPS DB?



What does this mean for SHPS DB?

Funding results (£m's)	30 September 2020	30 September 2021
Assets	5,148	4,941
Present value of benefits promised to members	6,708	6,033
Surplus/(deficit)	(1,560)	(1,092)
Funding level (assets/present value of benefits promised to members)	77%	82%

Source: TPT

Positive experience

- Increase in gilt yields
- Better than expected investment return
- Employer deficit contributions
- Impact of six bulk transfers out of SHPS

Negative experience

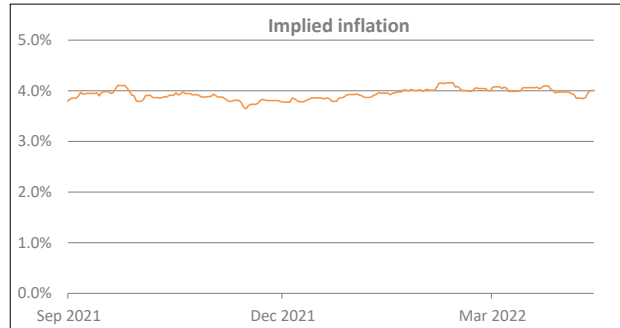
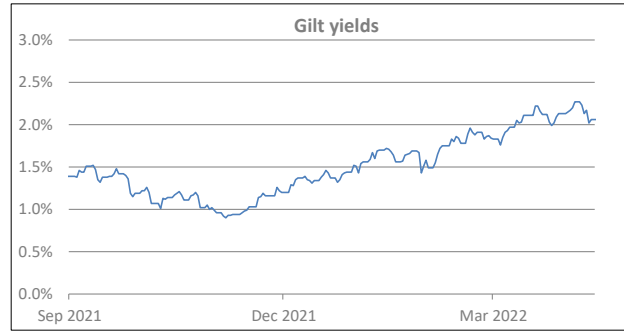
- Increase in long term inflation expectations

Significant reduction in SHPS deficit and improvement in funding position

Financial markets since 30 September 2021



What does it mean
for SHPS DB?



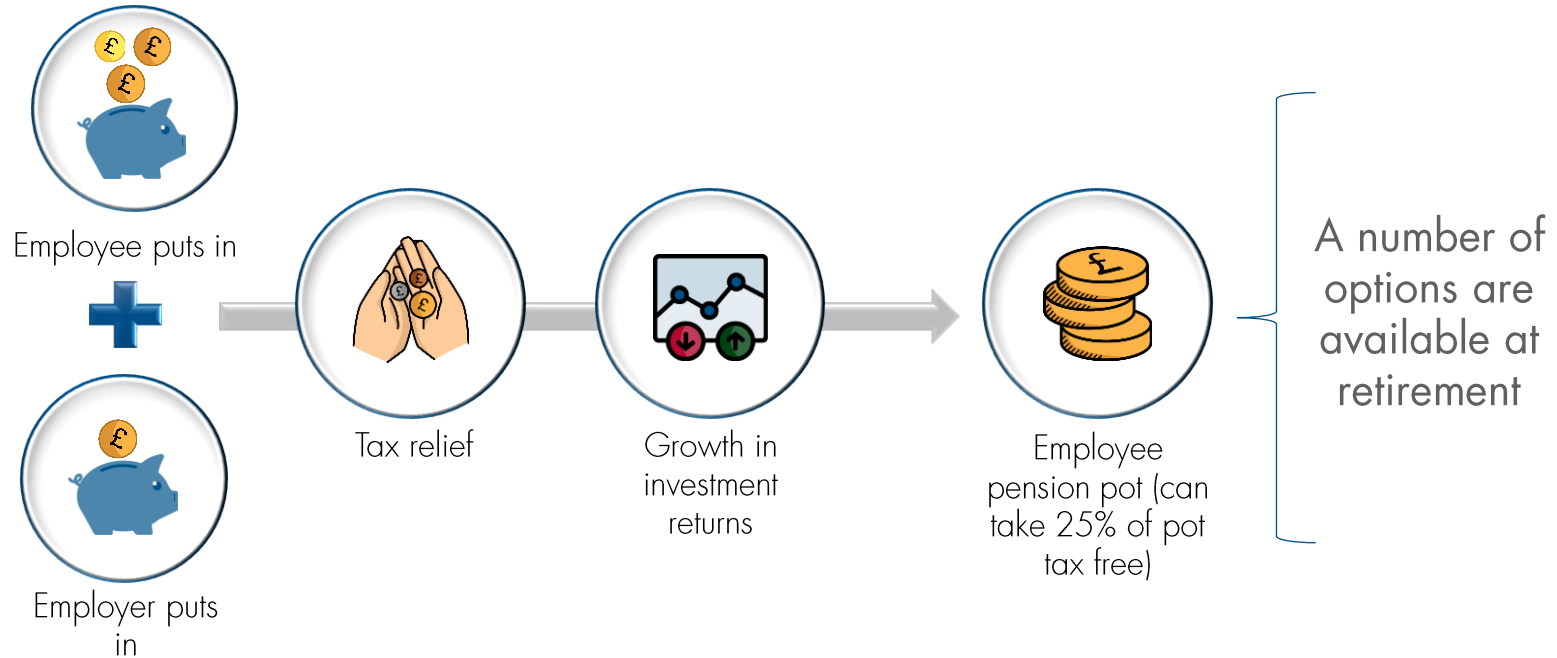
What does it all mean for SHPS DB

- No real significant change in past service funding position since 30 September 2021
- Reduction in the future service rate on the cards?
 - Contribution requirements for future accrual lower by c20% if calculation carried out at this point in time
 - Reduction in employer and employee contributions?
 - Early days, need to wait until 30 September 2023 valuation completed
 - No change in contributions until 30 September 2024 at the earliest



4. Defined contribution (DC) pension schemes

Defined contribution – how do they work?





Defined contribution - retirement options

The following options are available at retirement:

Annuity

A guaranteed income for life for you (and your dependents) from an insurer

Tax-free cash

Up to 25% of your pension pot before choosing another option

Take it all in one go

Do this after you take tax-free cash, remainder subject to income tax

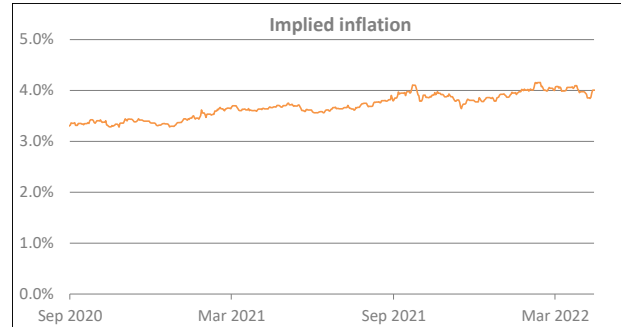
Drawdown

Take cash sums from your pot as and when you need, leaving your pot invested

Financial markets since 30 September 2020

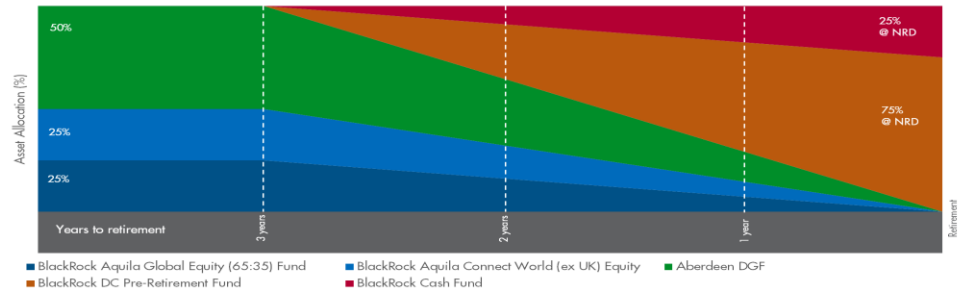


What does it mean
for DC pensions?



Impact on DC schemes – key take aways

- Global equity markets recovered since Covid-19 lows but remain volatile
- Pensions for most are a long term investment
- Diversification of investments so important especially in times like these
- Protection mechanisms generally in place for those close to retirement
- Annuity rates improving – increase in purchasing an annuity as a retirement option?

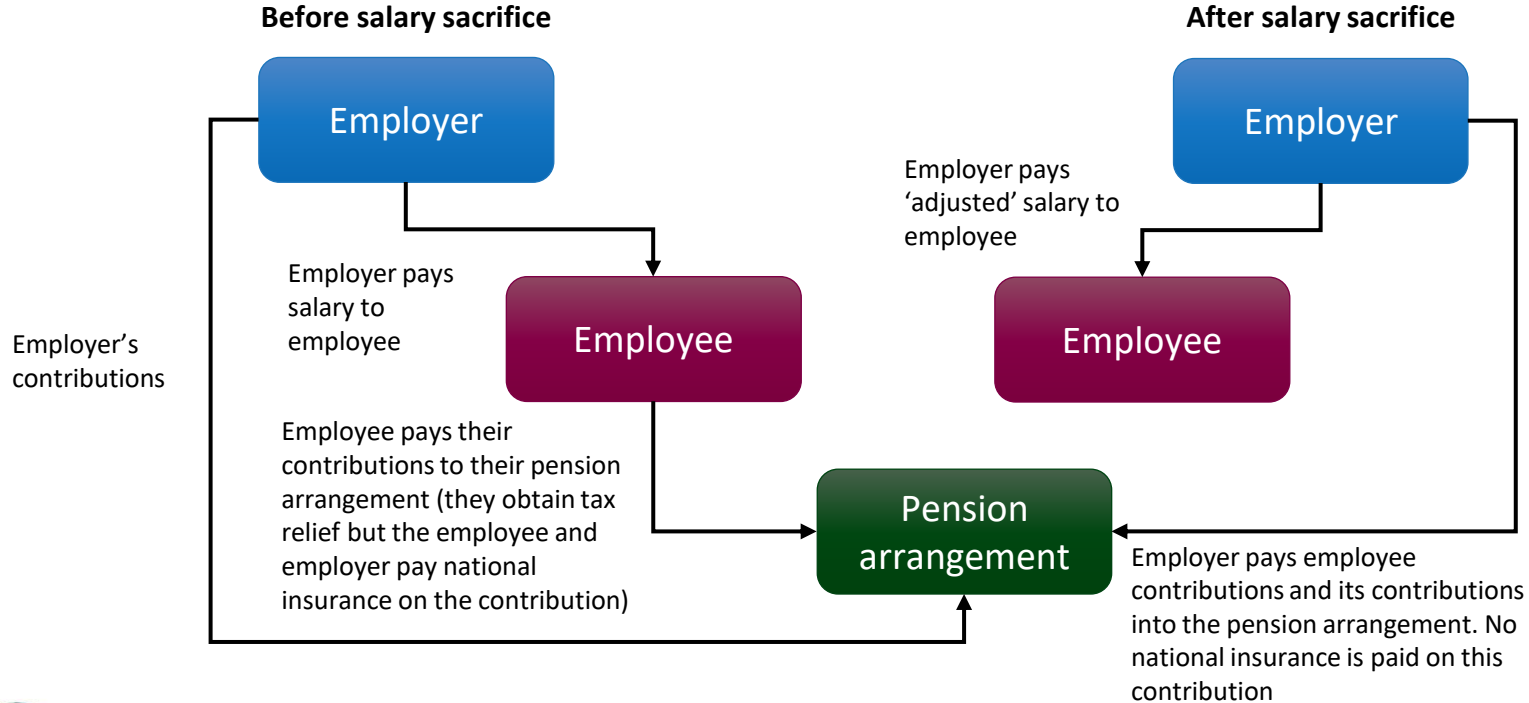


Engagement/education for employees so important

5. National insurance changes



A reminder - how does salary sacrifice work?



Before salary sacrifice

Member earning £30,000 per annum and paying 5.0% contribution

Ref.	Employee Name	Process Date	N.I. Number
007	Miss G Williams	30/04/2022	GG123456G

Payments	Units	Rate	Amount	Deductions	Amount
BASIC	2,500.00	1	2,500.00	PAYE Tax	290.40
				National Insurance	222.20
				Pension	125.00

Employer	This Period	Year to date
Tax period: 1	Total Gross Pay 2,500.00	Total Gross Pay TD 2,500.00
Tax code:	Gross for Tax 2,375.00	Gross for Tax TD 2,375.00
Department:	Tax Paid 290.40	Tax Paid TD 290.40
Payment method: BACS	Earnings for NI 2,500.00	Earnings for NI TD 2,500.00
Payment period: MONTHLY	National Insurance 222.20	National Insurance TD 222.20
	Pension (inc AVC) 125.00	Pension (Inc AVC) 125.00
	Employer NI 262.17	Employer NI TD 262.17
	Employer Pension 250.00	Employer Pension TD 250.00

Net pay	1,862.40
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This pension contribution is exempt from tax but you do pay National Insurance on it

After salary sacrifice

Member earning £30,000 per annum and paying 5.0% contribution

Salary sacrifice replaces your pension contribution

Employer pays your contributions in addition to their own

Ref.	Employee Name	Process Date	N.I. Number
007	Miss G Williams	30/04/2022	GG123456G

Payments	Units	Rate	Amount	Deductions	Amount
BASIC	2,500.00	1	2,500.00	PAYE Tax	290.40
Salary Sacrifice			-125.00	National Insurance	205.64

Employer		This Period	Year to date
Tax period:	1	Total Gross Pay	2,375.00
Tax code:		Gross for Tax	2,375.00
Department:		Tax Paid	290.40
Payment method:	BACS	Earnings for NI	2,375.00
Payment period:	MONTHLY	National Insurance	205.64
		Pension (inc AVC)	0.00
		Employer NI	243.36
		Employer Pension	375.00
		Total Gross Pay TD	2,375.00
		Gross for Tax TD	2,375.00
		Tax Paid TD	290.40
		Earnings for NI TD	2,375.00
		National Insurance TD	205.64
		Pension (Inc AVC)	0.00
		Employer NI TD	243.36
		Employer Pension TD	375.00

Net pay	1,878.96
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Your employee NI goes down by £16.56

Your net pay goes up by £16.56

Salary sacrifice example

The employee's net pay increases by £16.56 per month or £198.72 per annum



National insurance increase

1.25% increase
to both
employee and
employer NI
rates from April
this year

From April 2023
this increase will
be re-classified
as a Health and
Social Care levy

Will generally be
treated the
same way as
national
insurance
contributions

What does this mean for salary sacrifice pension arrangements?

National insurance increase

Will have an impact on those pension schemes that pay employee pension contributions via a salary sacrifice arrangement

Will make it even more efficient to pay employee pension contributions this way as both employee and employer will save more national insurance contributions

National insurance threshold increase

The threshold for the amount of pay to start paying national insurance contributions is increasing in July 2022 from £9,568 pa to £12,570 pa.

Therefore, if you have a salary sacrifice arrangement in place, we recommend that you revisit it to make sure only those who are earning above this threshold pay contributions this way.

Questions

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