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YMCA Pension & Assurance Plan

‘Pension Roadshows’
October 2014

Why the roadshows?

- YMCA England, as Principal Employer, represents Participating Employers across England, Scotland &Wales on the Pension Trustee Company
- Aware that communication between Principal and Participating Employers has been less than we would aspire to
- Aware that the Pension Deficit is a critical issue for all YMCAS, but there has been many changes in terms of senior staff and local Board Members
- May have liabilities as a YMCA, with people around who no longer understand why, or how it is being managed
- Genuine desire to engage more with Participating Employers, share issues when they arise, and to take appropriate ‘soundings’ wherever possible

What are we going to cover?

A: General Overview of the current Pension Deficit, and how it has been managed by the Trustee to date

B: The Triennial Valuation Process

C: Proposed changes to the basis of allocation of liabilities for deficit and expenses contributions

D: General Update on Pension-Related issues

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A: General Overview of the current Pension Deficit, and how it has been managed by the Trustee to date

- ❑ Trust Deed 1960 established the scheme
- ❑ All Participating Employers are ‘*jointly and severally liable’* within the scheme
- ❑ Trustee
- ❑ Principal Employer
- ❑ Operates across England, Scotland & Wales
- ❑ Participating Employers

TRENDS:

❑ 2011	-	1188	Deferred Members
	-	516	Pension Members
	-	112	Participating Employers
❑ 2014	-	1049	Deferred Members
	-	616	Pensioner Members
	-	97	Participating Employers

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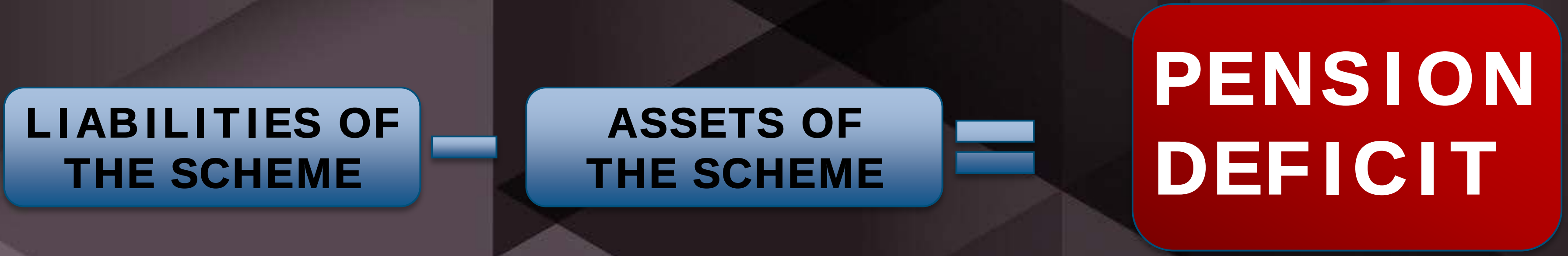
DIRECTORSHIP OF TRUSTEE COMPANY

(Independent Company to look after Member interests)

- ❑ 1 Nominated each from English, Scottish & Welsh National Councils (3)
- ❑ 1 Nominated from Participating Employers
- ❑ 1 Nominated from Principal Employer
- ❑ 4 Member-Nominated Trustees
- ❑ 3 Co-opted Places

- In the early 00's, as the impact of life expectancy tables markedly increased, it became clear that the liabilities of the scheme were growing at a much faster rate than the ability of the employees and employers to pay in to the scheme – even with significantly increased rates of contributions



LIABILITIES OF THE SCHEME – ASSETS OF THE SCHEME = PENSION DEFICIT

- Action was taken to try and slow the growing pension deficit:

1 May 2007 – ceased accrual of service
1 May 2011 – broke link with final salary

- Having closed the scheme, decisions were required as to how Participating Employers were going to manage the deficit, and a plan to repay the deficit over a recovery period of 10 years was established – with the liabilities, deficit and scheme expenses allocated to Participating Employers based on the service history of all members as at 1 May 1995
- Pension Trustees are obliged to have a revaluation of the liabilities of the scheme – and therefore the deficit every three years
- This has led to increases in the deficit payments that each Participating Employer has had to make, and also increases to the length of the recovery period – as a way of keeping down any increases in the deficit repayments.
- It is important to note that s.75 debt (Buy-out figure), which would extinguish all liability to the scheme, is based on the allocation of total liabilities (prescribed under pension regulation), and not just on the deficit contributions

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B: The Triennial Valuation Process

- ❑ Pension Trustees have a duty to ensure a valuation of the liabilities of the scheme every three years

PENSION
STATEMENT

- ❑ Completed by an impartial and objective Actuary engaged by the Pension Trustees

- ❑ This looks at the members within the scheme, both pensioners and deferred members (people with service in the scheme at some time, but not yet retired and drawing their pension)

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- Pensioner Members as a liability will reduce over time – as they get closer to projected life expectancy

- Deferred Members as a liability will increase over time, until they reach retirement age and potential annual increases are applied to their pension

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MORRIS
Morris

"Where are you going, pensioner - you retired yesterday, remember?"

- As deaths occur within membership, then liabilities are either reduced (spouse pensions) or cease altogether

- Current life-expectancy tables are used, and inflation assumptions made

- Total liabilities are calculated, that will take the scheme to the final point some time in the future, when the last Member of the scheme dies (or the spouse of the last Member) – when the scheme will be wound-up

- The assets of the scheme [previously pension payments made by both employees and Participating Employers, but now only by Participating Employers] are offset against the liabilities, giving the **‘Pension Deficit’**

- The Pension Deficit is then subject to the agreed apportionment methodology, that divides the total Deficit across all Participating Employers – to be repaid over an agreed period

- The initial results from the valuation – as at 1st May 2014 – is shown below

Preliminary Valuation Results:

£ million	Valuation as at 01-May-14	Valuation as at 01-May-11
Total Liabilities	**£129.5m**	**£103.3m**
Total Assets	**£90.8m**	**£71.0m**
Funding Level	**70%**	**69%**
Surplus / (Deficit)	**(£38.7m)**	**(£32.3m)**

- Important to note that this only refers to the deficit of the pension scheme, and does not include the expenses of the scheme, which are also allocated across all Participating Employers (c£500k per annum)

- The final valuation figures for 1 May 2014, and the resulting Pension Deficit, will need to be approved by the Pension Trustees and the Principal Employer – a decision that would normally be confirmed in January 2015

- The initial results suggest an increase in contributions towards the deficit of approximately 3%, with the recovery period being extended to 13 years

- However, for the avoidance of doubt, this scenario should only be seen as **‘treading water’** – as this level of deficit repayment is unlikely to ever clear the deficit

- Each Triennial Valuation updates the data, for deaths, transfers-out etc. In 2011, the data used in 2008 was re-used – again as a way of reducing the in-year impact of increased deficit contributions

- This year, the Actuary has again updated the data, as it was considered too risky not to do so for a second time – so adjustments will be required for deficit contributions this year in any event

C: Proposed changes to the basis of allocation of liabilities for deficit and expenses contributions

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- The YMCA Pension Plan was closed to new accruals of service in 2007
- The YMCA Pension Plan was closed to increases in Final Salary in 2011
- When the scheme was closed, the basis used for allocation of liabilities, and the deficit, was members service history as at 1 May 1995
- This was the most up to date service history data available at that time – and there had to be some basis upon which to allocate the liabilities and expenses of the scheme
- Since that time considerable effort and resource has been devoted to cleansing the available data

- Now able to accurately determine the full service history of each individual member across the whole of their YMCA employment (99.9%)
- Pension Trustees and YMCA England, as Principal Employer, have agreed that now updated data is available, all liabilities and expenses of the scheme should be allocated across Participating Employers based on the full service history of members
- This will be applied to the allocation of the deficit itself, the annual expenses of the scheme, and will be used in the calculation of any s.75 debts that may occur
- Any Participating Employer wishing to ‘buy-out’ of the scheme, is legally obliged to use full service history in any event

- It is inevitable that this will lead to adjustments in the allocation of liabilities across Participating Employers

Some will be losers and have larger allocations as a result

Winners
Losers

Some will be winners, and have smaller allocations as a result

- Range of adjustments is generally fairly small – with the exception of YMCA England!!

- This is seen as the fairest and most equitable approach to all Participating Employers

D: General Update on Pension-Related issues

‘Blue Sky Thinking’

- ❑ ‘Black cloud’
  - ❑ Can’t make the deficit go away
  - ❑ Might be able to mitigate risk and minimize deficit
- ❑ Provide more information and be more open
- ❑ Set up a mechanism for employer engagement
- ❑ Credit risk – too small to buy credit insurance
- ❑ Longevity risk – too small to buy a longevity swap

- Offer flexibility on benefits which might bring the overall liability down
- Put scheme into a conduit and minimize expenses
- Raise funds to buyout the scheme – change pension contributions to fixed rate loan repayments

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Financial Reporting Council 2015

Accounting Changes

For accounting periods commencing on or after 1 January 2015, ie for December 2015 or March 2016 accounts

Any *contractual obligation* to make pension deficit payments **must be shown as a liability** on the balance sheet

Calculation of Pension Liability

The annual pension payments have two elements:

- deficit contribution = show as a liability
- annual expense contribution = charged to I&E in the year paid

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An Example

A YMCA is required to pay £6,500 pa comprising £6,000 deficit contribution and £500 expenses.

A liability will be required for 11 years at £6,000 = £66,000

The opening reserves will therefore be **reduced** by £66,000

Example (cont)

The annual contribution of £6,500 will therefore be split:

- £6,000 to reduce the liability on the balance sheet
- £500 charged to the I&E account

The accounts will therefore report a **higher** operating surplus for the year

Issues

1) Need to consider the impact of lower reserves eg reserves policy, loan covenants
2) Liability calculation will need to include the future increases in payments and then discounted at cost of capital
3) Need to review calculation at each triennial valuation and adjust through I&E

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A worked example is available for people to take away

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Orphan Liabilities / Strength of Covenant

- If a Participating Employer, for whatever reason, ceases to operate e.g. going in to administration, then an ‘Orphan Liability’ is created

- An ‘Orphan Liability’ is the full s.75 debt of that Participating Employer i.e. the ‘buyout’ figure. Under the *‘joint and several liability’* basis upon which the scheme was established, this Orphan Liability would then be allocated across all other Participating Employers, on the Full Service History already discussed

- For the last 15 years, through careful management, Orphan Liabilities have been avoided

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Strength of Covenant:

- When the initial ‘recovery period’ of 10 years was established, this was done through negotiation with the Pensions Regulator

- An important element in the recovery period, was the strength of covenant that the Participating Employers together was able to establish with the Pensions Regulator – based on their financial viability, balance sheet assets etc.

- To continue to be able to limit the incidence of Orphan Liabilities, the strength of covenant across all Participating Employers should perhaps be examined, so that any weakening of that covenant can be identified early, and where possible, remedial action taken.

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Thank you for your attendance today, and we hope the Presentations have served to assist your understanding of the Pension Deficit issues.

If you have any questions that have not been addressed today, then please contact:

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Representing the Principal Employer

YMCA Pension Website – www.pensions.ymca.org.uk