

PAPER NO: HR.13 (12)	
Committee:	HR Committee
Date:	15 May 2012
Subject:	New defined contribution pension scheme for subsidiary companies
Author:	Natalie Ferer, Financial Controller
Executive sponsor:	Richard Flatman, Executive Director of Finance
Recommendation by the Executive:	<p>The Executive recommends that HR Committee note and recommend approval to the Board the key features of the proposed defined contribution pension scheme, including the tiered contributions at the rates shown, which employees of SBUEL will be invited to join.</p> <p>If approved, Lane Clark Peacock (LCP) will be instructed to proceed with procuring a suitable pension provider.</p>

Executive summary

- The issue of pension provision and deficits has been identified as a key risk by the University. The deficit in the LSBU section of the LPFA pension scheme was £55m at 31st July 2011 and employer contributions are currently 20.8% of payroll cost for those members in the scheme.
- The option of employing staff through a subsidiary company on terms which included defined contribution rather than defined benefit pensions has been discussed previously by HR committee and by the Board (see separate paper).
- The Board has previously approved the appointment of LCP to assist in the development of the new defined contribution scheme.
- The scheme will be structured in such a way that it can be used not only for SBUEL but for other subsidiary companies that LSBU might seek to establish in future.

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- The key feature of the proposed new scheme will be a 2 tiered contribution structure as follows:

Band	Employee Contribution	University Contribution
1	3%	6%
2	6%	9%

- The structure of the scheme will balance choice and incentives to the employee whilst limiting the University's exposure to rising pension costs.
- Next steps are set out in section 5 of this report.

	Board/Committee	Date
Matter previously considered by:	HR committee Board of Governors SBUEL Board Executive	31 January 2012 24 November 2011 28 March 2012 17 April 2012
Further approval required?	Board of Govenors	24 May 2012

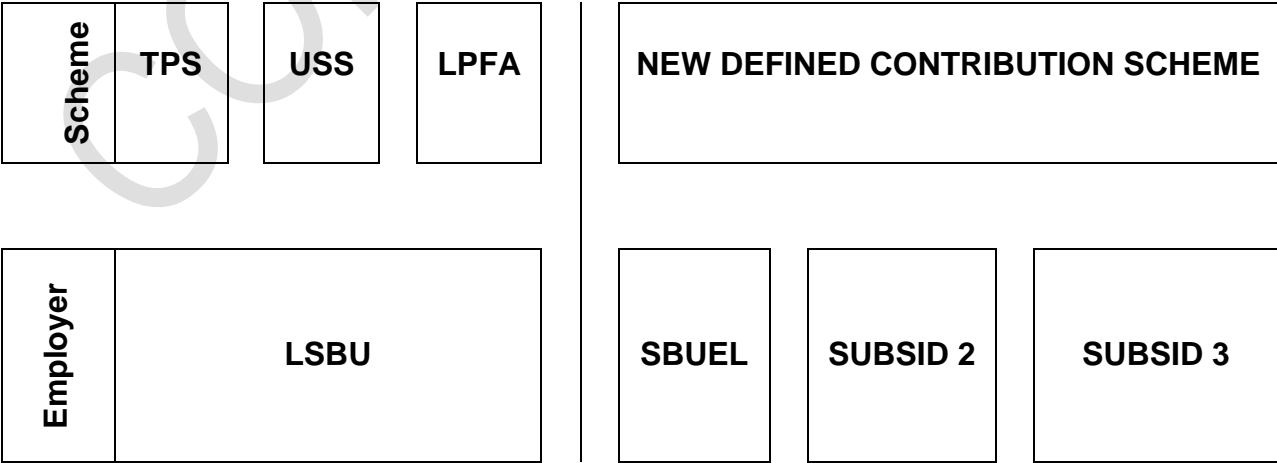
Communications – who should be made aware of the decision?	Unions (at an appropriate stage)
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Background

1. The University operates three pension schemes, the Teachers Pension Scheme (TPS) and University’s Superannuation Scheme (USS) for Academic staff and the London Pensions Fund Authority (LPFA) for support staff. All staff (with the exception of 2 SBUEL employees) are currently employed by London South Bank University (LSBU) and are eligible to join one of these three schemes.
2. The LPFA is the current area of focus as we are required to account for this under FRS17. The LSBU section of the scheme had an FRS deficit of £55m at 31 July 2011 and employer contributions are currently 20.8% which is deemed to be unaffordable. The issue of pension provision and deficits has been identified as one of the ‘top 10’ risks in the University’s risk register.
3. Various options have been considered, including employing staff via a subsidiary company where a defined contribution scheme can be offered. This is seen as a potentially effective strategy with which to manage this risk, given that the deficit in the LPFA scheme is largely driven by factors outside of the University’s control.

New Defined Contribution Scheme

4. The University’s subsidiary company, SBUEL, now has 3 employees and a further 11 staff are expected to be employed by SBUEL in the coming months. Some staff may be TUPE transferred from LSBU to SBUEL and some will be recruited to new posts. We are proposing inviting employees of SBUEL to join the new DC scheme as the costs of inviting them to join the LPFA scheme (currently 20.8% of salary) are deemed to be unaffordable. However, there is currently no general intention to move existing members of the LPFA scheme into the proposed new DC scheme. The three existing schemes available within the University will continue to be available to LSBU employees whilst the new defined contribution scheme will be offered to employees of SBUEL and any future subsidiary company the University may set up.



Proposed key scheme features

5. The project team, which is chaired by the Executive Director of Finance, has taken advice from LCP as to the features of the defined contribution pension scheme. The key features proposed are as follows:

- A **matched** contribution structure with two levels of contributions

Band	Employee Contribution	University Contribution
1	3%	6%
2	6%	9%

The rationale for recommending this structure is that it:

- ✓ is competitive but not overly generous
 - ✓ encourages uptake given the relatively low cost for staff choosing band 1
 - ✓ provides more than one option
 - ✓ provides an incentive for employees to contribute more with employer contributions at 9% in band 2
 - ✓ offers employer contributions above private sector benchmark but lower than the HE norm (see Appendix 1)
 - ✓ complies with auto enrolment legislation which requires a total pension contribution of 8%, with the employer contributing at least 3%.
 - ✓ Helps manage the University cost by limiting the number of contribution bands, only allowing staff to change bands once a year and by potentially discouraging employees from making the transition from band 1 to band 2, given the steep increase in contributions from 3% to 6%. In addition a top rate contribution of 9% is significantly lower than the current rate LGPS rate of 20.8%
 - ✓ is administratively more convenient than other structures considered.
- A **'tier 1'** structure which links contributions to basic pay and which will comply with the "Auto Enrolment" legislation. Tier 1 means that contributions will be linked to all elements of pay that do not vary, and would therefore exclude contribution on variable pay elements including commission, overtime and bonuses.
 - A **Salary sacrifice** arrangement whereby employees agree to give up a proportion of their pay equal to their pension contribution. LSBU will pay

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the same amount into the pension plan. This will reduce the overall national insurance cost to both the employee and LSBU.

- **Life cover**, in addition to pension benefits, of 4 x salary, which is a better benefit than the 2 ½% currently offered in the LPFA scheme
- **Ill health Income protection** of 60% of salary, payable for a maximum of 2 years. It is recommended that this is made available as an additional benefit only to those staff transferring from one of the current defined benefit schemes, to replace the current scheme ill health retirement cover.

Costs

6. It is expected that initially 14 staff will be employed by SBUEL and will be eligible to join the new defined benefit pension scheme. At the start of the scheme it is expected that staff would on average opt for the higher band of contributions as members transferring from the current defined benefit schemes would be used to paying higher employee contributions. The costs below show the overall costs for the recommended scheme at the two levels of contribution. Costs for life assurance and income protection are indicative only and actual costs will not be known until terms are obtained and agreed.
7. It should be noted that as an employer, the University and its subsidiaries can have different scheme structures for different groups of staff in the future.

Percentage costs		
Pension	6%	9%
Life Assurance (4x salary)	0.32 %	0.32%
Income Protection (payable for 2 years)	0.45 %	0.45%
Sub Total	6.77 %	9.77%
Additional NI (for existing DB members)	2.49 %	2.49%
Reduction for salary sacrifice	-0.69%	-0.94%
Total	8.57 %	11.32%

8. The estimated overall cost for the initial 14 members taking the option of band 2 contributions would be £74,000 per annum. If 50% opt for band 1 and 50% for

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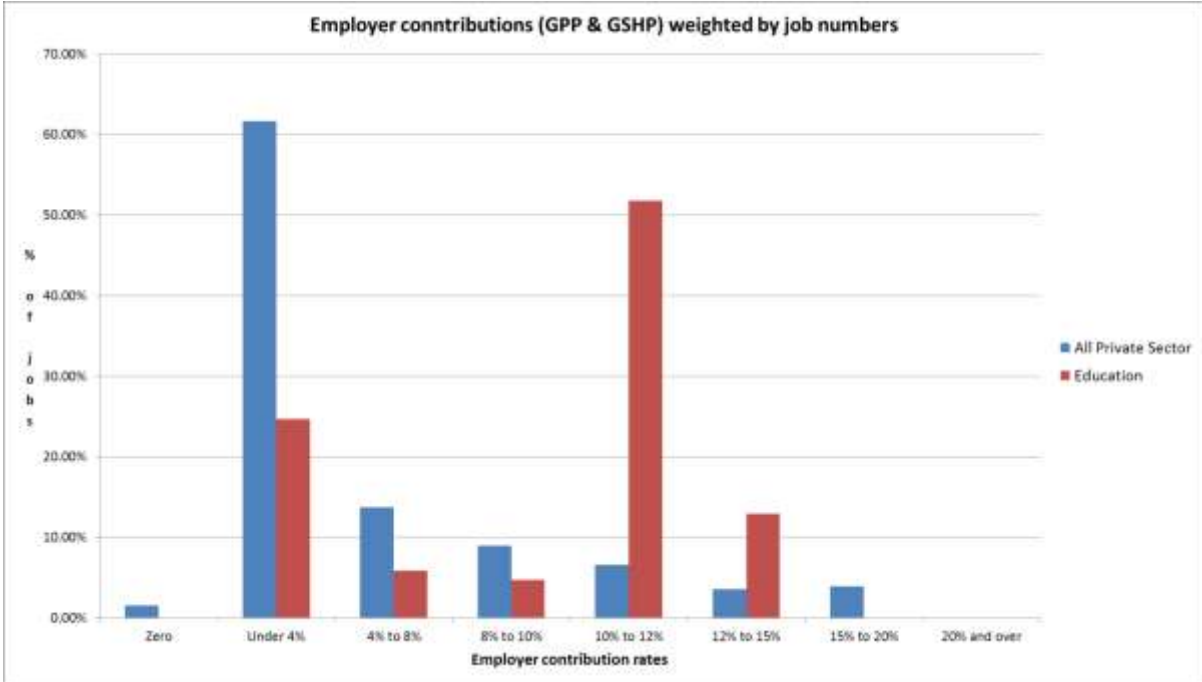
band 2, the cost would fall to £65,000. Membership of the LPFA with employer contributions of 20.8% would cost £126,000.

Next steps

9. Next steps are as follows;

Description	Date completed
LCP to submit provider recommendation report	1 st June
Selection process and provider site visits	16 June
University to confirm provider selection	30 June
LCP to recommend fund range and default investment strategy	15 July
Implementation meeting with new provider	15 July
LSBU to consult legal advisors regarding any amendments to employment contracts to accommodate salary sacrifice and/or automatic enrolment as appropriate	15 July
Review and agree provider communications	30 July
Member communications issued with joiner forms or opt out forms for contract based arrangement	15 Aug
Presentations by provider to introduce the new arrangement	30 Aug
Deadline for return of employee applications and opt out forms	15 Sept
Scheme commences	1 Oct

Appendix 1



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