

STRICTLY CONFIDENTIAL

	PAPER NO: HR.07(12)
Committee:	Human Resources Committee
Date:	31 January 2012
Subject:	New defined contribution pension scheme
Author:	Richard Flatman, Executive Director of Finance
Executive sponsor:	Richard Flatman, Executive Director of Finance
Recommendation by the Executive:	The Executive recommends that the Board notes progress since last HR Committee in November and considers the briefing paper attached from Lane, Clark & Peacock.

Executive summary

- LCP have now been appointed following approval at November Board
- The pensions project team has been established as agreed and has met twice
- A briefing paper has been developed highlighting key issues for consideration (attached for information)
- The likely key features of the scheme are presented here for consideration but are subject to more detailed modelling in terms of cost and benefit
- A more detailed proposal will be presented to Board in March for approval.

Attachments:

1. Briefing paper from Lane, Clark & Peacock LLP

	Board/Committee	Date
Matter previously considered by:	HR committee Board of Governors	October 2011 November 2011

Further approval required?	Recommended structure to be approved by: <ul style="list-style-type: none"> - Executive - SBUEL Board - LSBU Board of Governors 	Aiming for approval at March Board.
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Communications – who should be made aware of the decision?	Unions (at an appropriate stage)
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Progress since last meeting

1. A paper was presented to the October HR committee setting out the principles behind a proposed new defined contribution pension scheme and recommending the appointment of Lane, Clark & Peacock (LCP) to work with us to establish such a scheme.
2. The recommendation to appoint LCP was approved by the Board at its meeting in November. Since November the following progress has been made:
 - The project team, including governor representation, has met twice to agree terms, scope and provide overall direction to the project
 - LCP terms have been agreed and their appointment contract signed
 - A briefing paper has been prepared by LCP setting out the various options and issues LSBU should consider when agreeing the contribution structure and associated benefits
 - An outline timeline has been agreed. The implementation deadline remains 30 September 2012.
3. A copy of the LCP briefing paper is enclosed for consideration by Committee.

Likely key features of any proposed scheme

4. The briefing paper has been considered in detail by the project team. At present it is provided to Committee for information. Further modelling work is required to understand the likely cost and benefits to our staff based on potential scheme membership. A recommendation will be developed by the Executive for consideration by Committee.
5. Subject to the modelling, and based on initial review of the LCP document by the project team, it is anticipated that the scheme is likely to include the following features:
 - **financial sustainability**, through an absolute cap for employer contributions at say less than 10% on the basis that anything else is simply unaffordable. We will look at a number of scenarios through further modelling which, whilst seeking to be as competitive as possible, are likely to be closer to employer DC contribution rates in the private sector rather than the education sector (LCP report appendix 3)
 - A **matched** contribution structure, which seems to be the norm. A flat structure may be even easier to administer but is unlikely to give scope to grow in the future

- A **tier 1** structure in relation to the new auto enrolment legislation, with contributions linked to basic pay
- **incentives** for employees to contribute more, through stepped contribution levels which provide greater benefits at higher contribution levels
- an element of **salary sacrifice** to reduce the overall national insurance cost to LSBU
- **flexibility** through more than one contribution option, but with only a small number of options for ease of administration
- some element of **budgetary control**, through restrictions on the ability of employees to opt to change between contribution levels (probably annually)
- **Life cover**, in addition to pension benefits (subject to assessment of cost).

Next steps

6. Next steps are as follows:
 - Scenario modelling of cost and benefits at different levels of contribution
 - Project team to recommend to the Executive scheme structure and contribution levels
 - Executive to consider and recommend to HR committee/Board (proposed March 2012)
 - Procurement process and selection of provider.
7. Modelling is considered particularly important not only in terms of understanding the costs but also the pension benefits which are likely to be available in future to our staff under the scheme.