IChemE's UK staff pension arrangements

IChemE operates two pension schemes for its UK based staff:

- A defined benefit pension scheme – closed to new staff and future accruals
- A defined contribution pension scheme – open to all staff (and subject to auto-enrolment)

Defined Benefit Pension Scheme

The defined benefit pension scheme was established in 1975.

The scheme assets are held in trust by the pension scheme trustees independently from the assets of the employer, IChemE.

Triennial valuations are carried out by the scheme actuaries, appointed by the pension scheme trustees, to check whether the level of contributions paid into the scheme are sufficient to provide the benefits due to the scheme members.

The triennial valuation includes two main tests:

i) Does the scheme have enough money assuming that it carries on in the long-term as intended – known as the long-term position.

ii) Does the scheme have enough money if the employer (IChemE) were to fail – known as the solvency position.

A number of assumptions are made about the future benefits to be paid from the scheme and the future investment growth, assuming the employer continues to support the scheme. Based on these assumptions the actuary then tests whether there is estimated to be sufficient money in the scheme to provide the benefits.

The pension scheme trustees are responsible for setting the assumptions, but must do so with the agreement of the employer, and after taking into account the strength of the employer covenant – i.e. how strong the company finances are and how supportive the employer is to the scheme.

If the results of the valuation show a deficit between the scheme assets and scheme liabilities, then the pension scheme trustees are required to negotiate with the employer to come up with a recovery plan to bring the fund back into balance. This is usually through increased contribution levels over an agreed period of time.

Risks of a defined benefit pension scheme

Employers are exposed to significant risks by providing these schemes i.e. investment risk with the volatility in the stock market, inflation risk, and longevity risk where members are now living longer.

These can all lead to a deficit in the scheme valuation and an increased demand for higher contribution levels.

As a result, most employers with defined benefit pension schemes have been looking for solutions to reduce the risk of the scheme on the company or to close the scheme completely.

Since 2002 IChemE has taken a number of steps to reduce the level of risk and liability to IChemE:

- In 2002 the accrual rate for pensionable service was changed from 1/60th to 1/70th. Members were given the opportunity to top their accrual rate back up to 1/60th by paying in additional contributions.

- In 2002 the normal retirement date for members was increased from 60 to 65.
- In 2003 the contribution rate of active members (i.e those in employment) was increased from 4% to 5%.
- In 2005 the scheme was closed to new entrants.
- In 2006 the scheme was closed to future accruals. For members still in employment at that time, their pensionable service accrual ceased and their pensionable salary was frozen as at April 2006.

As the scheme is now closed to future accruals, members of the scheme no longer pay in contributions. However, IChemE is still required to pay contributions to the scheme in order to continue to provide the benefits payable to members. The contribution level is determined by a triennial valuation undertaken by the scheme actuaries.

Pension scheme valuation

The latest triennial valuation was carried out as at 31 January 2015.

At this time the amount required to meet the pensions and accrued member benefits was £12.3m. This value is arrived at by measuring the pensions and benefits that have already accrued at the valuation date, projecting the expected future benefit cashflows and then discounting the resulting cashflows back to the valuation date to allow for interest.

The value of the investment scheme assets at the valuation date was £8.3m, which left a deficit of £4.0m in the scheme.

Following negotiations, the pension scheme trustees and Council agreed to a recovery plan as follows:

- Employer contributions of £170k per annum from 1 February 2016 to 31 January 2018 rising in line with the Consumer Price Index (CPI) at each 1 February; and
- £265k per annum from 1 February 2018 to 30 June 2027 increasing in line with CPI at each 1 February. Or if agreed, alternative annual increases, lump sums or other measures to ensure the deficit is recovered by 30 June 2027, subject always to review based on the result of the 2018 valuation and consequent deficit.

In addition, to provide extra security to the pension scheme Council agreed to place a first charge on the freehold premises in Rugby, capped at £500k, in favour of the pension scheme.

Opportunities for further de-risking

The pension scheme trustees, in cooperation with Council, will continue to look at opportunities for de-risking the scheme further.

Earlier this year, the pension scheme trustees met with representatives from Council to discuss introducing Liability Driven Investments into the scheme's investment portfolio as a means of de-risking the scheme's investment strategy. The proposal was formally approved and has since been put into place.

Independent assessment of the pension scheme

Annual statutory accounts are prepared for the pension scheme, which are filed with The Pensions Regulator. The accounts are examined and signed off by external auditors, who are appointed by the pension scheme trustees.

The results of the pension scheme, calculated by the pension scheme actuary under accounting standard FRS102, are incorporated into IChemE's annual statutory accounts. As part of IChemE's audit the pension scheme results are examined by the external auditor's pension specialists.
The results of the triennial valuation, together with the recovery plan and statement of contributions, are filed with The Pensions Regulator. The Pensions Regulator has the power to reject the submission, if for example it felt that any of the assumptions used in the valuation were inappropriate

or the proposed contribution level was insufficient.

Both the pension scheme trustees, through the scheme actuary, and Council, through its own pension advisor, take advice during the preparation of the triennial valuation and agreement of the appropriate contribution levels.

The pension scheme trustees have their own investment advisors to assist them in regularly reviewing the scheme's investment strategy and in selecting suitable fund managers.

Defined contribution pension scheme

Following the closure of the defined benefit pension in 2006, IChemE established a defined contribution scheme for its UK staff members.

IChemE's trustees are responsible for the operation of the scheme. The plan is currently administered by Standard Life and is reviewed on an annual basis by pension specialists Punter Southall.

Staff members decide whether they wish to join the scheme and the level of contributions they wish to pay into the scheme. IChemE contributes 1.5 times the amount the member is paying up to a maximum of 12% of annual basic salary.

Since 2014 the scheme has been subject to auto-enrolment legislation. This means that staff are automatically enrolled into the scheme and have to opt-out every three years if they do not wish to remain in the scheme.

On leaving employment with IChemE all administration of the scheme is passed onto the individual and employer contributions stop.

Members of the pension scheme are also eligible to join the life assurance scheme. This is an insurance policy paid for by IChemE which pays out four times the amount of basic annual salary should that member die while employed by IChemE.

Separate pension provision is made for staff outside the UK.

Conclusion

The pension scheme trustees and Council have acted responsibly by taking steps to reduce the liability to the employer whilst continuing to maintain the rules of the scheme and benefits payable to members.

The scheme, like many other defined benefit pension schemes, is in a deficit position. However, in accordance with pension legislation the employer and pension scheme trustees have put in place recovery plans to eliminate the deficit in the scheme by 2027.

Going back as far as 2003, with the exception of 2015, the contribution to the pension scheme has been covered by the annual operating surplus and therefore has not depleted reserves.

In 2003, a single premium injection of £300k was put into the scheme following the triennial valuation at that time. IChemE had just sold its freehold property in London and therefore as part of the negotiations into the future contribution rate, 50% of the proceeds from the sale were put into the scheme enabling the annual contribution rate to be retained at a lower rate than would otherwise have been necessary.

Only two of the current senior management team are members of the closed defined benefit pension scheme. At the time that the scheme was closed to future accruals in 2006, both of these staff members were junior members of staff, one with 8 years' service and the other with 3 years' service.

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